

Choosing Cascades

Easy as 1-2-3!



Cascades

Established in 1964, Cascades is a North American leader in the manufacture, converting and marketing of packaging products, tissue papers and fine papers made primarily with recycled fibre. Canada's largest manufacturer of packaging products, the second-largest tissue paper producer in Canada and fourth-largest in North America, and a leader in manufacturing and distributing fine papers

Corporate **Profile**

in Canada, Cascades employs more than 14,000 people in some 150 modern operating units located in Canada, the United States, France, England, Germany, Sweden and Mexico. • The Corporation recycles more than two million tonnes of paper and board every year. Its leading-edge de-inking technology, sustained research and development activities and nearly 40 years of recycling experience are all distinctive strengths that enable Cascades to manufacture innovative, value-added products and to market them throughout the world.

Financial and Stock Market Highlights

	2002	2001	Variation 2002 / 2001
Financial Results (in millions of dollars, except per share amounts and ratios) (for the years ended December 31)			
Net sales	3,375	3,023	12%
Earnings before interest, taxes, depreciation and amortization (EBITDA)	424	380	12%
Operating income	285	248	15%
Net earnings per common share	\$ 169	\$ 109	55%
Cash flow from operations	\$ 2.07	\$ 1.33	56%
Purchase of property, plant & equipment	313	249	26%
Dividend per common share	129	122	6%
Financial position			
Total assets	2,959	2,733	8%
Total long-term debt	1,095	1,103	-1%
Other liabilities	216	208	4%
Shareholders' equity per common share	1,065	870	22%
	\$13.02	\$10.75	21%
Stock information (CAS: TSX)			
Trading volume (in millions)	41.3	31.7	30%
Daily average trading volume (in thousands)	164.0	126.4	30%
High	\$18.25	\$10.44	
Low	\$10.30	\$ 6.41	
Stock price at closing	\$15.65	\$10.41	
Number of shares issued and outstanding (in millions)	81.8	81.0	50%
Market capitalization	1,281	843	52%
Financial ratios			
Return on equity	17.5%	13.3%	
EBITDA/net sales	12.6%	12.6%	
EBITDA/interest	5.9x	4.4x	
Net funded debt/EBITDA	2.7x	3.1x	
Net sales/total capitalization	1.4x	1.3x	
Net funded debt/total capitalization	46.7%	51.4%	
Total debt/total debt + shareholders' equity	52.9%	58.1%	
Shipments summary (major products, in thousands of short tons)			
Packaging	1,610	1,533	5%
Tissue papers	338	247	37%
Fine papers	313	297	5%



PHILIPPE, SON OF SYLVAIN LAPERRIERE, CUSTOMER SERVICE

If Cascades is now the largest user of recycled fibre in Canada, it's because "environment" has been part of our basic vocabulary since 1964. Our recycling activities are tangible proof of our respect for the environment. As such, approximately two-thirds of the raw materials used in our products come from recycled fibres. • Cascades' commitment goes even further. Our

Eco-friendly Fibre

research and development units are always looking for new approaches to preventing pollution that will enable our manufacturing operations to surpass the environmental standards set by the various levels of governments. In the same perspective, energy efficiency is also a company-wide priority.



FANIE, DAUGHTER OF JULES BERNIER, HUMAN RESOURCES

When it comes to putting our plans into action, our most valuable assets are our employees. This is the reason our chosen management style is people oriented, and our approach is dynamic and interactive. Each individual is expected to view any given project as an opportunity to both make a contribution and to develop their full potential. • The Cascades philosophy,

The Human Element, Key to our Success

based on respect and commitment, has made its mark on every level of our organization right from the beginning. Our flexible structure promotes open communication and encourages initiative. The result is a workforce with an unusually strong sense of belonging and of working together for the good of the Corporation. • To maintain this strength, Cascades invests heavily in setting up effective workplace safety and health programs. Our organization is also known for the quality of the skill development training available to our employees.



RAPHAËLE, NICOLAS, ALEX, CHILDREN OF MARYSE FERNET, HUMAN RESOURCES, AND PIERRE BROCHU, LEGAL AFFAIRS

Cascades is making an impact as a key player in the manufacture, converting and marketing of high-quality packaging products, tissue papers and fine papers. • Cascades' growing recognition has been enhanced by combining the Corporation's three operating sectors under one banner, but it is rooted in the unique expertise sustained throughout the years in each of our

Cascades' Synergy

core businesses. • The synergy created by increased interaction among the various operating facilities is also making a valuable contribution to corporate expansion.

Lemonade 25¢



A proactive attitude, continual attention, flexibility and a sense of priority are qualities inherent in Cascades' customer-based approach. In establishing a relationship based on trust with each customer, our representatives do more than simply respond to their needs. They strive to anticipate these needs in order to offer creative, tailored solutions. Because we have

A Customer's Partner

established the largest Research and Development Centre associated with any paper producer in Canada, our customers, as well as our sales teams, can count on the kind of outstanding support and expertise that ensures everyone's success. With sales offices in some ten countries, our partners can now rely on a sales force that spans the globe.

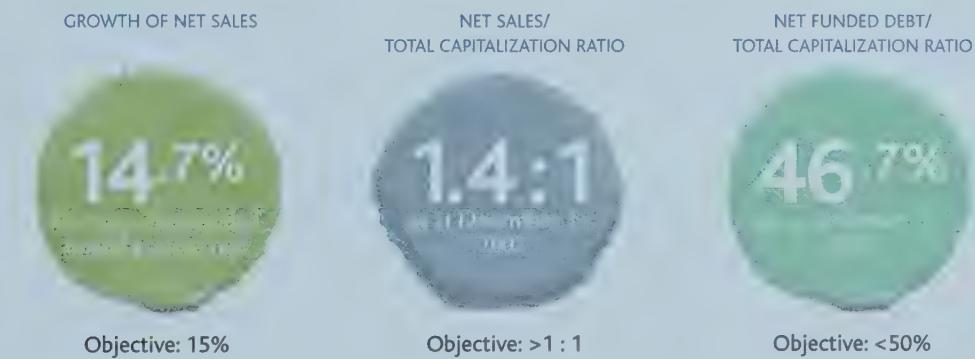
Corporate Structure



Message to Shareholders

Convincing Results! Fiscal 2002 has been a particularly satisfying year for Cascades, despite the challenges posed by the instability of the U.S. economy. With net earnings of \$169 million, up 55% from the restated net earnings of \$109 million for 2001, net sales of \$3.4 billion, or 11.6% higher than year-ago figures, and EBITDA also up 11.6% to \$424 million, our financial results for 2002 set new records. This performance is all the more rewarding since it was achieved despite an increase in the cost of waste paper, which was offset by higher shipping volumes, an increase in the price of some of our products, and lower natural gas unit prices. • We have every reason to be proud. In business conditions unfavourable for our industry as a whole, we have been able to show a return of 17.5% on shareholders' equity, and have reduced our net funded debt to total capitalization ratio from 51.4% as at December 31, 2001 to 46.7% at the end of

Keeping the Focus on our Objectives



fiscal 2002. • No doubt, we are in some respects reaping the rewards of what we have sown during the Corporation's 38 years of existence. Our diversification and productivity have helped us post excellent results, year after year, regardless of the volatile cycles that characterize our industry. In 2002, we generated free cash flow of \$196 million, which enabled us to carry on with our strategy of growth through acquisitions, while at the same time reducing our indebtedness and increasing our dividend. We have also continued to expand, especially in the United States, and have successfully integrated the majority of our recent acquisitions. These acquisitions, made in our packaging and tissue paper sectors, have substantially changed our asset base over the past few years.



LAURENT LEMAIRE, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Message to Shareholders

A Clear Brand Image In April 2002, we brought all of our business groups under the Cascades name. This was an important step, as it strengthened each team's sense of belonging to a greater whole. All our employees are now aware that they are part of a powerful, highly regarded group that is a recognized leader in its various business sectors. Public awareness of Cascades has also been heightened, because the same brand image is now associated with all our products and all our operating units.

- **A Solid Foundation** One of the year's highlights was the acquisition of manufacturing and converting assets from American Tissue in New York State, Oregon and California. This investment, which will total US\$90 million, will boost the annual production capacity of our Tissue Group by 125,000 short tons, or 33%, and allow us to increase our market share in this sector in the United States.
- Furthermore, we have continued to optimize our overall operations as well as our financial

Always Aiming Higher

structure. For instance, last August we privatized Cascades S.A., our European subsidiary. We also sold our retail egg cartons business, thus helping our Specialty Products Group to rationalize its operations and to partner with the purchaser in terms of sharing state-of-the-art technologies.

- Moreover, we can count on an excellent team of managers who know their business inside out, who are capable of making the best decisions, and who can provide us with leaders ready to take on even more responsibility in the future. Each group is autonomous, giving the managers and their teams real accountability, while maintaining solid and consistent links with the other divisions and units to encourage communication and increase synergy.
- We introduced new blood into the Corporation's management ranks and appointed new presidents to head two of our groups. Denis Jean was appointed President and Chief Executive Officer of the Fine Papers Group; he replaces Martin P. Pelletier, who has taken a well-earned



ALAIN LEMAIRE, EXECUTIVE VICE-PRESIDENT, CASCADES INC., AND PRESIDENT AND CHIEF EXECUTIVE OFFICER, NORAMPAC INC.

Message to Shareholders

retirement after a 25-year career with Cascades, a career during which his leadership was greatly appreciated. Denis Jean has agreed to take on this challenge, bringing his experience at the senior management level of several major pulp-and-paper companies. Éric Laflamme was appointed President and Chief Operating Officer of the Boxboard Group for North America last September. Mr. Laflamme knows Cascades very well, having spent close to 15 years handling a variety of management responsibilities for our European operations; he replaces Jacques Mallette, who has left Cascades after eight years of loyal service.

- **An Action-oriented Corporate Culture** Cascades' success over the years is proof of the importance of our core values, values that are essential to our growth. We have developed a corporate culture that values both customer needs and shareholder expectations, and that builds on the supply of top-quality products. We keep a tight rein on costs and work to improve quality

Looking Forward with Confidence

and productivity in a healthy and dynamic working environment that encourages our employees to develop, both personally and professionally. Finally, we limit the expansion of our business activities to the sectors where we can put our expertise and our assets to the best use, while abiding by our acquisition criteria.

- These values would be nothing but empty words were they not translated into everyday decisions and actions. With this in mind, we would like to acknowledge the commitment and enthusiasm that all our employees bring to pursuing and achieving our objectives. We owe a large part of Cascades' success and growth to them, and we thank them for their efforts. With their support, we are convinced that we have a bright future.
- We would also like to thank the members of our Board of Directors for their invaluable advice, and for the time and energy they devote to helping the Corporation achieve its objectives and to representing the interests of our shareholders.



BERNARD LEMAIRE, CHAIRMAN OF THE BOARD

Message to Shareholders

Our Commitments for 2003 In 2003, we will continue the development of our operating sectors begun in recent years, building on our solid positions in terms of market share and expertise. We will continue to employ our winning strategies:

- > improving our efficiency and reducing costs by means of continuous improvement initiatives and programs;
- > focussing on the development of value-added products and growth markets;
- > increasing our upstream and downstream integration by acquiring converting units and intensifying our waste paper and board recovery operations;
- > continuing to find ways of improving customer service; and
- > pursuing growth through strategic acquisitions that fit well with our products, our markets and our business sectors.

Pursuing our Growth

In February 2003, we completed a major refinancing which will help us reach our growth objectives by increasing our flexibility through the rescheduling of our debt and by giving us access to new credit facilities. It is important to be able to move quickly when business opportunities present themselves, providing they meet our criteria for return on investment without undermining the strength of our financial position.

- Acknowledged leaders in all our fields of activity, we are committed to remaining, for our shareholders, our employees and our customers, a worthy investment, a stimulating and sought-after employer, and a supplier of superior-quality products.



Laurent Lemaire

President and Chief Executive Officer



Bernard Lemaire

Chairman of the Board



If Cascades' growth has been both strong and steady, it is only because the Corporation has been able to stay ahead of the curve and adapt quickly to change while imbuing its workforce with the values that build success. This approach has provided us with a strong pool of future leaders who have outstanding business expertise paired with a strong command of

Ready for the Future

our operations. • Placed in senior management positions, our management team has a thorough understanding of the issues facing our industry. Today, these experienced and entrepreneurial leaders are actively developing the strategies that will enable Cascades to meet the challenges of tomorrow.

DENIS JEAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CASCADES FINE PAPERS GROUP INC., MARIO PLOURDE, PRESIDENT AND CHIEF OPERATING OFFICER, CASCADES INC., SPECIALTY PRODUCTS, MARC-ANDRÉ DÉPIN, EXECUTIVE VICE-PRESIDENT, NORAMPAC INC., SUZANNE BLANCHET, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CASCADES TISSUE GROUP INC., ÉRIC LAFLAMME, PRESIDENT AND CHIEF OPERATING OFFICER, NORTH AMERICA, CASCADES BOXBOARD GROUP INC.



A Sweet Surprise

Net sales of
billion
for the Packaging Sector

Review of Operations Packaging Sector

Established just five years ago, Norampac has already earned a solid position in the containerboard industry. This 50% joint venture has become the largest containerboard producer in Canada and the seventh-largest in North America, with net sales of \$1.2 billion in 2002, up 10% compared to 2001. Norampac has eight containerboard mills and 25 corrugated products converting plants in Canada, the United States, France and Mexico with an annual production capacity of close to 1.6 million short tons, and employs more than 4,700 workers. While net sales rose in 2002, Norampac's profits were down slightly from 2001 levels for three main reasons: average selling prices were lower, U.S. demand was softer, and the cost of recycled fibre was higher. As a hedge against increases in the price of this raw material, the mills make every effort to optimize inventory management and augment their buying power by working in tandem with the Cascades corporate purchasing group. They also

A Source of Satisfaction and Pride



WHEN PACKAGING HAS TO
BE RELIABLE, PROTECTIVE,
PROMOTIONAL – NORAMPAC'S
PRODUCT LINE OFFERS A WIDE
RANGE OF SOLUTIONS.

endeavour to match production to customer demand. As a result, market-related downtime in 2002 represented the equivalent of 76,000 short tons, or approximately 5% of Norampac's North American mills production capacity. The converting plants in North America currently absorb about 58% of the output from the production units, and the acquisition of additional converting facilities, together with capital investments to expand our capacity, will enable us to move closer to our integration objective of 70%. • As part of this integration strategy, which helps Norampac stabilize its production, the Star Container Corporation corrugated products converting plant in Leominster, near Boston, was acquired in January 2002. With its annual production capacity of more than a billion square feet, a workforce of 150 employees, a well-established customer base and state-of-the-art equipment, this plant gives Norampac a stronger position in the U.S. corrugated products market. • In October 2002, Norampac officially inaugurated a new converting plant in Vaughan, Ontario with an annual capacity of 2.5 billion square feet. The employees took on this new challenge with enthusiasm and quickly made this plant one of Canada's most efficient. In fact, the plant is already producing 150 million square feet per month, and this is expected to increase to 170 million square feet per month by the end of 2003. Also in Ontario, the Trenton containerboard mill will be able to reduce production costs and while improving its environmental performance with the completion

Review of Operations Packaging Sector

of a \$30 million capital investment enabling the recovery of a by-product of the semi-chemical cooking process involved in making corrugating medium. • Norampac invests heavily in research and development. For instance, work is currently under way to develop a water and moisture-resistant box to replace the waxed boxes currently used for harvesting and shipping fresh fruits and vegetables. This new, fully recyclable product could make Norampac a leader in this area.

The Boxboard Group improved its performance significantly in 2001. It did even better with net sales of over \$958 million in 2002, up 12% from the net sales of \$854 million in 2001. The Boxboard Group is the largest manufacturer of coated boxboard for folding cartons and microflute packaging in Canada and France, and place it in the top five in Europe and the top ten in North America. The Group has seven mills and six converting

Ongoing Improvement



TAKE A LOOK AROUND YOUR
KITCHEN AND YOU ARE SURE TO FIND
BOXBOARD CONTAINERS PRODUCED
BY CASCADES AND ASSEMBLED AT ONE
OF OUR SIX CONVERTING PLANTS.

plants in Canada, the United States, France, Germany and Sweden, with a total annual production capacity of 953,000 short tons and a converting capacity of 182,000 short tons. The Boxboard Group employs more than 3,000 workers. • The improvement achieved in 2002, despite the significant increase in recycled fibre costs, is due to a number of factors, including a 9% rise in North American shipments, streamlining of production activities, tighter cost controls, an increase in the value of the euro, and a decrease in financial expenses due to reduced debt and lower interest rates. • The Group's European mills performed well in 2002, once again demonstrating their ability to adapt to the specific requirements of their diverse markets. The accomplishments of these units are being acknowledged. For instance, barely five years after being acquired by Cascades, the mill in Arnsberg,

Review of Operations Packaging Sector

Germany, received the prestigious Nordrhein-Westfalen Industry and Commerce "Milestone" award in the "Turnaround" category. This success typifies the spirit that pervades the whole Boxboard Group, which is continually trying to better meet the twofold challenge of reducing production costs while increasing customer satisfaction.

- The folding carton facility in Scarborough, Ontario, discontinued its operations in October 2002. By transferring production from this facility to the Group's six other plants, we were able to make effective use of specializations and to build synergy, thus reducing production costs.
- In addition to manufacturing and converting boxboard, we can now offer value-added services such as the design, development and improvement of packaging concepts, as well as technical services and testing labs.
- Building on the substantial improvement of its performance over the past three years, the Boxboard Group is optimistically looking forward to the future.

Innovative Products



Greater synergy among our manufacturing and converting facilities, progress in streamlining operations, and the development of new markets and new products are all factors that will help us stand out within our industry.

For the **Specialty Products Group**, 2002 was a satisfying year, with net sales amounting to \$455 million, compared to \$444 million in 2001. This diversified group employs more than 1,700 employees in 29 units in Canada, the United States and France, and operates in seven sub-segments.

- The uncoated board manufacturing and converting facilities turned in a good performance for the year. Cascades is already among the leading North American producers of packaging for the pulp and paper industry, and is continuing to develop this niche

CASCADES OFFERS MANY INNOVATIVE
SPECIALTY PRODUCTS: KRAFT PAPER,
UNCOATED BOARD, PLASTIC AND MOULDED
PULP PRODUCTS FOR THE QUICK-SERVICE
RESTAURANT AND FOOD INDUSTRY,
HONEYCOMB PACKAGING, BASE PAPER
FOR FLOOR COVERING...

Review of Operations Packaging Sector

particularly in the United States. The new coextrusion line, started up in March 2002 in Kingsey Falls, is already one of the most efficient in North America. This \$14 million investment opens up new markets in the construction and food-related industries.

- In November 2002, we announced the purchase of new honeycomb packaging manufacturing equipment. Installed in the Cascades Enviropac plant in Toronto, this equipment has allowed the Specialty Products Group to increase its production capacity for this high-growth market, which offers a variety of integration possibilities with Norampac.

- In the moulded pulp sector, where we manufacture products mainly for the quick-service restaurant and food industries, we will continue to develop innovative, customer-oriented products, while concentrating our focus on the most profitable market niches. We sold our retail egg carton business to Denmark's Brødrene Hartmann A/S group, and this has allowed us to streamline our operations and to negotiate production technology sharing agreements with Hartmann.

- Unfortunately, fiscal 2002 proved tougher for our de-inked pulp products. Higher prices for waste paper, lower prices for virgin pulp, and a downturn in the pulp and paper industry made a noticeable dent in the demand for this type of product, since de-inked pulp is sold as a substitute for the virgin fibre used by fine paper and tissue paper producers.

- On the other hand, in 2002, the recovery sector increased its capacity in Québec by 30% with the purchase of a competitor's waste paper recovery plant in the Montréal area. We are planning to continue increasing our waste paper and board recovery capacity by acquiring other specialized units in this field, in order to supply the needs of the plants operated by Cascades, which use more than two million metric tonnes of recycled fibre a year.

- The plastics sector had a record year, with sales up 27% and a significant increase in profitability. It should be noted that our plant in Warrenton, Missouri, which opened in 2000, is making an important and growing contribution to this performance.

- In 2003, the Specialty Products Group will continue to invest in its facilities to improve profitability and expand product lines, while emphasizing the development of value-added products. To keep ahead of the curve with such a diversified group, it is essential to be ready and able to take advantage of business opportunities and to continually develop innovative products.



4th

All wrapped up!

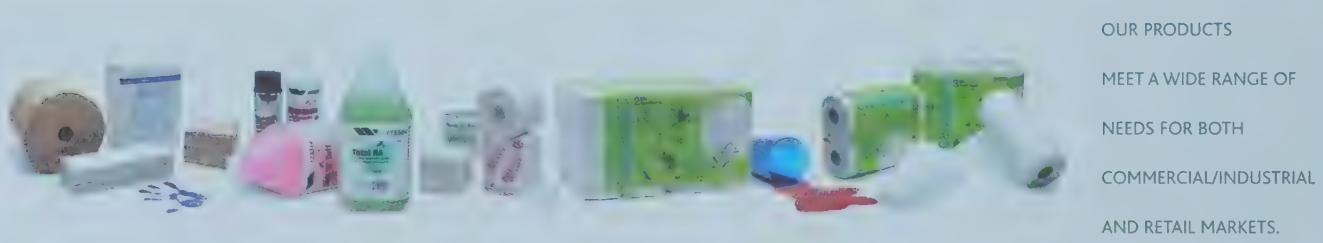
largest tissue paper
manufacturer in North America

Review of Operations Tissue Paper Sector

Thanks to an effective strategy of growth through acquisitions, the **Tissue Group**'s net sales have more than doubled in the last three years, increasing from \$320 million in 2000 to \$682 million in 2002. This has made the Group the fourth-largest tissue paper producer in North America. • A well-known manufacturer and converter, the Tissue Group employs about 2,000 workers in 14 units in Canada and the United States. It markets its finished products almost equally in two markets—retail and commercial/industrial—in almost every region of North America.

• As in 2001, when the Group recorded an increase of 60% in its net sales, fiscal 2002 was an outstanding year. Once again, the Group's management was able to identify and take advantage of acquisition opportunities that are expected to contribute significantly to the Group's profitability. They have been so successful in this regard that the Group now accounts for 20% of Cascades' consolidated net sales, compared to 17% last year.

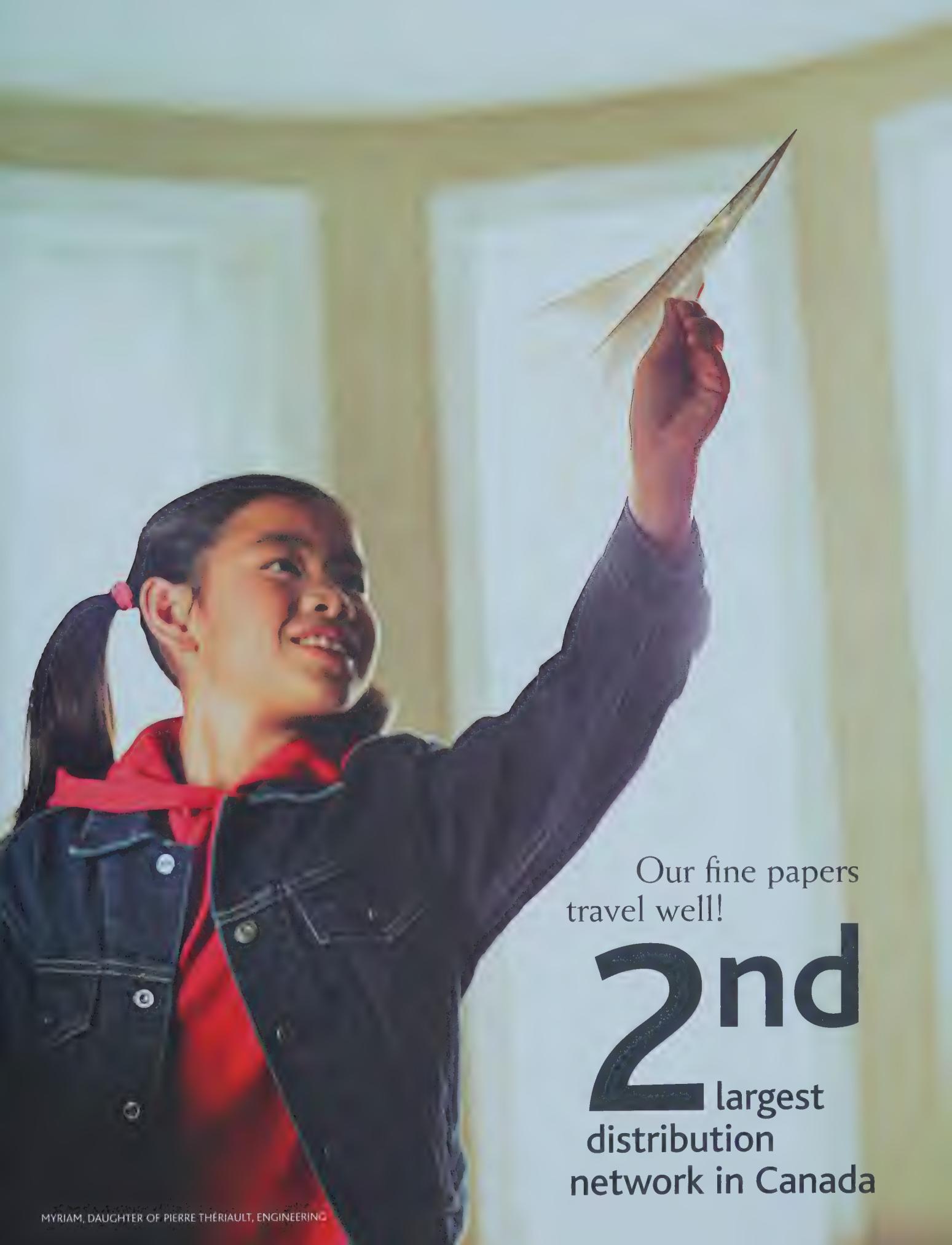
Successfully Integrating Recent Acquisitions



OUR PRODUCTS

MEET A WIDE RANGE OF
NEEDS FOR BOTH
COMMERCIAL/INDUSTRIAL
AND RETAIL MARKETS.

- The 33% increase in net sales for 2002 is mainly due to the successful integration of the two Plainwell mills acquired in September 2001 and to the acquisition of certain American Tissue assets in 2002. These recent acquisitions increase our annual production capacity by 125,000 short tons and are especially important for our commercial/industrial sector. The American Tissue assets include a tissue paper mill in New York State, a tissue paper machine in Oregon and two converting sites; one in New York State and one in California. Unlike the Plainwell mills, most of American Tissue assets were not operating. It will take some time to bring all these new facilities operating up to speed. • Fiscal 2003 will likely be a year of consolidation for the Tissue Group. The priority here will be to develop and integrate the assets acquired in 2002, while focussing on expanding our customer base and moving into new markets. The Group will also be focussing on developing premium products, a niche where we are noticing increased demand. However, the emphasis on consolidation will not prevent us from remaining alert to interesting acquisition opportunities as a means of pursuing a strategy that clearly contributes to Cascades' growth and success.



Our fine papers
travel well!

2nd largest
distribution
network in Canada

Review of Operations Fine Paper Sector

Formerly known as Rolland, the **Fine Papers Group** manufactures and markets a comprehensive line of coated and uncoated specialty papers for the printing, graphic arts and other publishing markets. The Group also manufactures one of the best de-inked pulp in North America, and offers a broad range of paper converting and distribution services. With close to 1,900 employees, it has two production units located in Saint-Jérôme and Thunder Bay, as well as a converting centre in Saint-Jérôme, a de-inking plant in Breakeyville and a distribution division, Cascades Resources, with 15 distribution centres across Canada. • Net sales for the Fine Papers Group rose by 3% in 2002 to \$770 million. Soft selling prices were offset by a better sales mix provided by Cascades Resources. The reorganization of our sales teams also boosted sales of value-added products and increased our presence in some markets, especially

Record-breaking Productivity



OUR SWATCH BOOKS NOT ONLY
SHOWCASE THE RENOWNED QUALITY
OF OUR FINE PAPERS, THEY ALSO
MAKE A STRONG CONTRIBUTION
TO BRAND AWARENESS.

in the United States. Meanwhile, we continued to develop the high-profit security paper niche. Our security paper production in 2002 was close to 8,000 short tons, ten times higher than in 1992, when we first entered this highly specialized market.

Review of Operations Fine Paper Sector

The Saint-Jérôme mill had a record year, in terms of both production and profitability, with the manufacture of high value-added products and increased sales in the American Midwest. • Our Thunder Bay mill was significantly affected by selling prices that were considerably below the 20-year average; nonetheless, this mill achieved its best production levels ever and introduced some promising new products. • The Saint-Jérôme converting centre increased its sales by 22% in 2002 while significantly reducing production costs. Its new sheeting equipment has given it an edge as the preferred converting facility, in addition to allowing this unit to target the steadily growing small office/home office market. • Cascades Resources has furthered its diversification with the acquisition of "Distribution Art Graphique Marathon". Its state-of-the-art technology and the acknowledged

Wherever You Are



WITH NEARLY 25% OF THE MARKET,
CASCADES RESOURCES IS THE
SECOND-LARGEST CANADIAN
DISTRIBUTOR OF SUPPLIES
FOR THE GRAPHIC ARTS INDUSTRY.

expertise of its team enables this unit to provide the book paper market with an outstanding line of products to meet their every need. • In 2003, the Fine Papers Group plans to focus on expanding its product range and increasing its marketing efforts to raise the profile of the products it has to offer.



Tonnes

of Commitments

- FLAMMARION
- LA VIE D'UN MARIN
- LE PAPILLON
- REGARDE LES GRANDES
- de la vie
- GAMMA - TRECARRÉ
- LES 3 DÉSIRS DE LA VIE
- LE PAPILLON
- LA VIE D'UN MARIN
- REGARDE LES GRANDES
- de la vie
- GAMMA - TRECARRÉ
- Le racisme
- EPIGONES
- Mieux comprendre
- LE FRANÇAIS D'AUJOURD'HUI
- l'école des loisirs
- EPIGONES
- Binette Schroeder
- L'AVVENTURE DES MOTS
- l'école des loisirs
- EPIGONES
- COORDINATEURS DE A À Z
- LANGUES
- Florian et Tracteur-Max
- LES AUTRES ET MOI
- Chantecler
- ÉTIENNE, SON OF CATHERINE VIRGILIAUD - CUSTOMER SERVICE



Throughout its history, Cascades has always shown the greatest respect for its employees, shareholders, customers and the people who live in the communities where the Corporation carries on its business. This inherent respect, the cornerstone of Cascades' philosophy and values, is seen every day in concrete ways, from a simple smile of approval to promoting environmental protection, to a donation or a sponsorship amounting to several hundred thousand dollars.

Environment: a Natural Ally

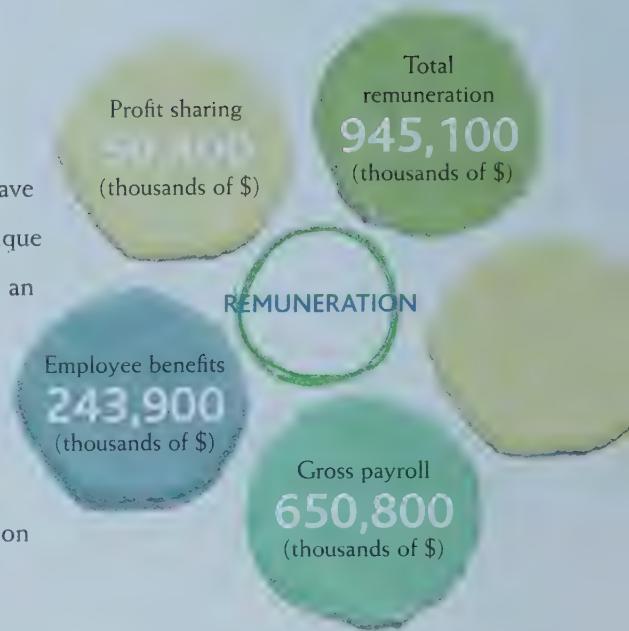
Environment Environmental protection is integral to Cascades' mission. The Corporation's environmental management programs are among the best and most forward-thinking in the pulp and paper industry. The environment is a priority, and it is clearly identified as such by all our facilities, throughout the world.

Community Involvement Fully aware of its responsibilities as a good corporate citizen, Cascades is actively and effectively involved in the social, economic and cultural development of the communities surrounding its production facilities. This year, the Corporation granted over three million dollars to more than 200 organizations, either directly or in the form of sponsorships, and has in this way had a far-reaching, positive impact on the well-being of these communities. In 2002, for example, Cascades was a sponsor of the summer-long *Earth from Above* photography exhibit that delighted hundreds of thousands of Montrealers and tourists on McGill College Avenue, just steps from the Corporation's offices.

Human Resources Development To fully develop the talents of its workforce and to give its most dynamic employees the opportunity to pursue a rewarding career, the Corporation launched an ambitious human resources development program at the end of 2002. Designed to enable Cascades to provide for its ongoing growth by grooming employees to take on additional responsibilities, this program responds to the new requirements created by the Corporation's rapid growth and aims to minimize the effects of a shrinking labour pool due to

the ageing population. The ultimate goal of the program, which will have an impact on every working unit, is to provide Cascades with a unique workforce, willing and able to satisfy the Corporation's future needs, in an environment that encourages personal and professional development.

Health and Safety Two years ago, we initiated a three-year plan aimed at reducing the frequency and severity of accidents in all our North American facilities. This plan is continuing to have encouraging results, with the number of accidents down by 8% in 2002 for the Corporation



Investing with Care



as a whole. Our European units are now included in this plan, so we can expect even more improvement in 2003 and subsequent years.

- **Remuneration** In 2002, Cascades' employees received close to a billion dollars in remuneration, including \$50 million under the profit-sharing plan. This plan gives the Corporation an effective way of recognizing the employees' contribution to the results, while at the same time—and with good reason—increasing their sense of belonging.
- **Training** Nearly 12,000 people benefited from our many programs designed to increase our employees' professional skills and expertise, for approximately 500,000 hours of training in 2002.



Impressive numbers

LORY, DAUGHTER OF DANNY POULIN, ACCOUNTING, AND RENÉ BOISVERT, PRODUCTION

Management's Discussion and Analysis of Financial Position and Operating Results

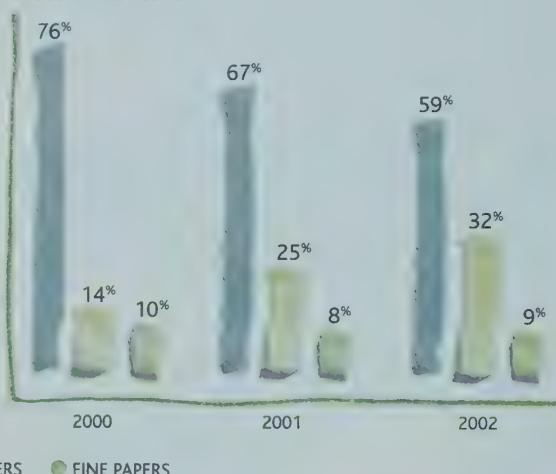
Management's discussion and analysis of our financial position and operating results is based on our consolidated financial statements. Our critical and significant accounting policies are summarized in Note 1 of our consolidated financial statements. Note that figures for 2001 are restated to apply new Canadian Institute of Chartered Accountants (CICA) accounting principles which eliminate the deferral and amortization of unrealized exchange gains or losses arising from the translation of long-term debt and other similar monetary items.

This management discussion and analysis contains statements that are forward-looking in nature. Such statements involve known risks and uncertainties, such as: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign currency exchange rates, our ability to integrate acquired businesses into our existing operations, and other factors referenced herein and in the Company's continuous disclosure filings. Therefore, the Company's actual results may be materially different from those expressed or implied by such forward-looking statements. All the financial information reflected herein is expressed in Canadian dollars and determined on the basis of Canadian Generally Accepted Accounting Principles.

EVOLUTION OF NET SALES



EVOLUTION OF EBITDA



2002 GEOGRAPHICAL DISTRIBUTION OF SALES



Management's Discussion and Analysis of Financial Position and Operating Results

(in millions of dollars)	2002	2001
Consolidated net sales		
Packaging	1,932	1,775
Tissue Papers	680	510
Fine Papers	763	738
	3,375	3,023
Geographic sales		
Canada	1,768	1,668
USA	1,242	1,007
Europe & Others	581	542
	3,591	3,217
Consolidated EBITDA		
Packaging	251	253
Tissue Papers	136	96
Fine Papers	37	31
	424	380

Overview

We are a diversified producer of packaging products, tissue papers and fine papers with operations in Canada, the United States, Europe and Mexico. We have leading market positions for many of our products in North America and we are a leading producer of coated boxboard in Europe.

Although we believe that our product, market and geographical diversification helps to mitigate the effects of adverse industry conditions, the markets for some of our products, particularly containerboard and fine papers, are highly cyclical. These markets are heavily influenced by changes in the North American and global economies, industry capacity, and inventory levels maintained by our customers, all of which affect selling prices and our profitability. Market conditions gradually improved during 2002 and we have been able to implement increases in the selling prices for some of our products, as well as significantly reducing downtime compared to 2001.

Consolidated Operating Results

Years ended December 31, 2002 and 2001 (in millions of dollars, except amounts per share)	2002	2001
Net sales	3,375	3,023
EBITDA ^(a)	424	380
EBITDA/net sales	12.6%	12.6%
Operating income	285	248
Net earnings	169	109
Earnings per common share	\$2.07	\$1.33

(a) EBITDA is defined as earnings before income taxes, share of earnings attributed to non-controlling interests, share of earnings of significantly influenced companies, unusual losses (gains), interest expense, foreign exchange loss on long-term debt and amortization. EBITDA is not a measure of performance under Canadian generally accepted accounting principles. We believe that EBITDA is an additional measure utilized by investors in determining a borrower's ability to meet debt service requirements. However, EBITDA does not represent, and should not be used as a substitute for, net earnings or cash flow from operations, as determined in accordance with generally accepted accounting principles. EBITDA is not necessarily an indication of whether cash flow will be sufficient to fund our cash requirements. In addition, our definition of EBITDA may differ from that of other companies.

Year Ended December 31, 2002, Compared to Year Ended December 31, 2001

Net sales. Net sales, which are sales less cost of delivery, increased by \$352 million, or 12%, to \$3,375 million for the year ended December 31, 2002, versus \$3,023 million for the same period of 2001. Of the year-over-year increase, \$314 million was attributable to acquisitions made since the third quarter of 2001. Notwithstanding these acquisitions, our net sales increased by 1.3% due to higher shipments in all of our businesses. As a result, the Company posted a net sales to total capitalization ratio of 1.4:1 for 2002, compared to 1.3:1 for 2001.

Management's Discussion and Analysis of Financial Position and Operating Results

The effect of the increased shipments was offset, however, by lower average selling prices for the year, mainly in our containerboard and fine papers groups, even though some price increases for our products were implemented during the third quarter of 2002. In addition, in our containerboard and boxboard groups we took market-related downtime to adjust primary mill production levels to customer demand, representing approximately 4% of our total capacities for these groups.

Packaging	Net sales (in millions of dollars)		EBITDA (in millions of dollars)		Shipments (in thousands)		Average selling price (in dollars/unit)	
	2002	2001	2002	2001	2002	2001	2002	2001
Boxboard								
North America	509	442	40	35	356 st	326 st	1,430	1,356
Europe	449	412	48	52	530 st	528 st	847	780
	958	854	88	87	886 st	854 st		
Containerboard ⁽¹⁾								
Manufacturing	346	347	47	67	724 st	679 st	478	511
Converting	468	400	50	38	6,378 msf	5,241 msf	73	76
Others and eliminations	(206)	(196)	9	7				
	608	551	106	112				
Specialty products	455	444	57	54				
Eliminations	(40)	(24)	—	—				
	1,981	1,825	251	253				

(1) The Company's containerboard sub-segment consists entirely of its interest in Norampac, a joint venture.

Net sales for our packaging products segment increased by \$156 million, or 9%, to \$1,981 million for the year ended December 31, 2002, versus \$1,825 million for the same period of 2001, despite curtailments in our production levels to adjust primary mill production to customer demand. Net sales for our Boxboard Group increased by \$104 million, or 12%, for the year ended December 31, 2002, compared to the same period in 2001, mostly due to higher shipments in North America and Europe, the acquisition in early 2002 of a folding carton plant from the Tissue Group, and from the proportionate consolidation of the results of Metro Waste, previously accounted for using the equity method. This Group also benefited from a favourable trend in the euro exchange rate, which added \$29 million to net sales for the year.

Net sales for our Containerboard Group increased by \$57 million, or 10%, for the year ended December 31, 2002 compared to the same period in 2001. This increase was due partly to acquisitions, as well as to the proportionate consolidation of the results of Metro Waste.

Average net selling prices for containerboard and corrugated products for the year ended December 31, 2002 decreased by approximately 7% and 4%, respectively, compared to the same period of 2001. These decreases were offset by increases of 3% in shipments from containerboard mills and 4% in shipments from converting operations, excluding recent acquisitions.

Net sales for our Specialty Products Group increased by \$11 million, or 2%, to \$455 million for the year ended December 31, 2002, versus \$444 million for the same period in 2001. Sales from our moulded pulp sector were down \$10 million, mainly because of our exit from the retail egg carton market. The contribution from our non-integrated de-inked pulp units, one of which was temporarily closed during the third quarter of 2002, decreased by \$6 million. However, this was more than offset by our plastics, building materials, multi-ply paperboard, packaging for the pulp and paper industry and waste paper recovery sub-segments, which made an increased contribution of \$27 million, due to good market conditions and sales force development.

Management's Discussion and Analysis of Financial Position and Operating Results

Tissue Papers	Net sales (in millions of dollars)		EBITDA (in millions of dollars)		Shipments (in thousands)		Average selling price (in dollars/unit)	
	2002	2001	2002	2001	2002	2001	2002	2001
Manufacturing	600	425	128	86	338 st	247 st	1,775	1,721
Distribution	106	105	8	10				
Eliminations	(24)	(19)	—	—				
	682	511	136	96				

Net sales for our tissue paper segment increased by \$171 million, or 33%, to \$682 million for the year ended December 31, 2002, versus \$511 million for the same period in 2001. This increase was almost entirely due to the net impact of the acquisition of the two Plainwell mills in September 2001 and the acquisition of a tissue mill and tissue paper equipment in the United States from American Tissue in 2002. The positive impact of these acquisitions was, however, offset by the transfer of a folding carton plant to the Boxboard Group.

Fine Papers	Net sales (in millions of dollars)		EBITDA (in millions of dollars)		Shipments (in thousands)		Average selling price (in dollars/unit)	
	2002	2001	2002	2001	2002	2001	2002	2001
Manufacturing	416	418	27	18	313 st	297 st	1,329	1,407
Distribution	419	405	10	13				
Others and eliminations	(65)	(77)	—	—				
	770	746	37	31				

Net sales for our fine papers segment increased by \$24 million, or 3%, to \$770 million for the year ended December 31, 2002, versus \$746 million for the same period in 2001. The increase is primarily due to a better sales mix from the distribution division, Cascades Resources, which sold more software and hardware solutions for the graphic arts industry, including the additional contribution of "Distribution Art Graphique Marathon", which was acquired during the second quarter.

Both the coated and uncoated fine paper mills increased their shipments during the year, but the coated paper mill in Thunder Bay, Ontario, saw its selling prices decline due to increased foreign competition, notably from Asia and Europe. Both fine paper mills were able to produce a better mix of grades and increase shipments to the United States.

EBITDA. We generated EBITDA of \$424 million for the year ended December 31, 2002, compared to \$380 million for the same period of 2001, a 12% increase. The EBITDA margin remained steady at 12.6%. Most of the increase can be attributed to our tissue paper segment as a result of the contribution of the two Plainwell mills acquired in September 2001. In addition, all of our businesses benefited from the lower cost of natural gas per gigajoule, which decreased 24% compared to the same period last year. Overall, we also benefited from lower virgin pulp prices.

Price increases progressively implemented at the end of the year helped to compensate for higher recycled fibre prices. Overall, our cost of sales and selling and administrative expenses increased by \$267 million and \$41 million, respectively, mainly due to acquisitions made over the last twelve months. Both cost of sales and selling and administrative expenses remained flat as a percentage of net sales because as our net sales increase these expenses generally increase proportionately.

Management's Discussion and Analysis of Financial Position and Operating Results

EBITDA for our packaging sector remained flat at \$251 million for the year ended December 31, 2002, compared to \$253 million in 2001. Generally lower selling prices reduced our containerboard profit margins and were only partially offset by an increase in shipments. In addition, higher fibre costs adversely affected margins in all parts of our packaging segment. These factors were offset, however, by lower costs for natural gas and virgin pulp, increased contributions from the converting units of our Containerboard Group and additional volume resulting from recent U.S. acquisitions.

EBITDA for our tissue paper sector increased by \$40 million, or 42%, to \$136 million for the year ended December 31, 2002, versus \$96 million for the same period in 2001, primarily as a result of recent acquisitions. Margins were lower as a result of higher costs for white grades of recycled paper along, with an increase in the proportion of sales to independent converters, which tend to generate lower margins than sales of finished goods. We also incurred non-recurring expenses of approximately \$4 million with regard to recently acquired American Tissue facilities.

EBITDA for our Fine Papers Group increased by \$6 million, or 19%, to \$37 million for the year ended December 31, 2002, versus \$31 million for the same period in 2001, despite lower average selling prices overall. The increase was due in part to lower virgin pulp and energy costs in 2002 versus 2001, and increased shipments from both our uncoated and coated fine paper mills. The Thunder Bay coated paper mill, however, saw its selling prices decline due to increased foreign competition. Overall, we benefited from a 3% average price increase for commodity papers in January 2002, and for cut reprographic papers in April 2002, and a 4% price increase in September 2002 for other types of uncoated fine papers.

Amortization. Amortization increased by \$7 million, or 5%, to \$139 million for the year ended December 31, 2002, versus \$132 million for the same period in 2001, primarily as a result of recent acquisitions.

Operating earnings. As a result of the above, consolidated earnings from operations were up 15% to \$285 million, compared to \$248 million for the previous year, and the operating margin rose from 8.2% in 2001 to 8.4% in 2002.

Interest expenses. Interest expenses decreased by \$14 million, or 16%, to \$72 million for the year ended December 31, 2002, primarily due to lower interest rates but also because a net amount of \$26 million in long-term debt was repaid during the year.

Unusual losses (gains). For the year ended December 31, 2002, we recorded an unusual loss of \$4 million before income taxes and shares of earnings attributed to non-controlling interests, compared to an unusual gain of \$7 million for the year ended December 31, 2001. Unusual items for the year ended December 31, 2002 consisted of:

- > a gain of \$1 million resulting from the dilution of our interest in a significantly influenced company;
- > a gain of \$6 million resulting from a reduction in the amount of the fine imposed by the Court of First Instance of the European Communities in 1994 and the interest income related to the reduction of this fine;
- > a loss of \$5 million following the disposition of our retail egg carton business in the moulded pulp products sector; and
- > a loss of \$6 million resulting from the closing of a folding carton plant in Ontario.

Management's Discussion and Analysis of Financial Position and Operating Results

Provision for income taxes

Provision for income taxes

We are required to estimate our income taxes in each of the jurisdictions in which we operate. This includes estimating a value for our existing net operating losses, based on our assessment of our ability to utilize them against future taxable income before they expire. As opportunities to use or not such operating losses arise, we are in a position to recognize more or less of such operating losses as assets, which in turn may increase or decrease our income tax expense, and consequently affect our earnings in a given year.

The income tax provision for the fiscal year ended December 31, 2002, amounted to \$61 million, representing an effective tax rate of 29.2%, which compares to a provision of \$49 million, for a 31.6% tax rate, in 2001.

The 2002 consolidated income taxes provision included a reduction of \$12 million or \$0.14 per share in the provision for income taxes, resulting from agreements with taxation authorities with regard to the recognition of tax benefits on prior-year losses. The income tax provisions for 2001 reflected a decrease in the corporate income tax rates of certain Canadian provinces, as well as the revaluation of certain fiscal assets, for a total of \$14 million, or \$0.17 per share. Excluding the effect of these items and the prior-year tax adjustments, our effective income tax rate would have been 35.6% and 36.7% in 2002 and 2001, respectively.

Net earnings. As a result of the foregoing factors, net earnings increased by \$60 million, or 55%, to \$169 million or \$2.07 per share for the year ended December 31, 2002, versus \$109 million or \$1.33 per share for the same period in 2001.

Excluding unusual losses or gains and our share of a gain realized in February 2002 by an affiliated company, Boralex (in which we own a 40% equity interest), our net earnings were \$153 million or \$1.87 per share in 2002, compared to \$105 million or \$1.28 per share in 2001.

Liquid Assets and Capital Resources

Cash flow from operations excluding working capital components. Cash flow from operations excluding working capital components totalled \$313 million for the year ended December 31, 2002, versus \$249 million for the same period in 2001. Our cash flow from operations excluding working capital components has steadily increased, primarily due to improved operating results arising mainly from acquisitions, strategic capital investment decisions made in the past and ongoing cost reduction initiatives.

Investment activities. For the year ended December 31, 2002, investment activities required total net cash resources of \$277 million. We invested \$18 million to increase our ownership interest in Dopaco, an important U.S. provider of packaging products for the quick-service restaurant industry, from 32.5% to 40%. We hold an option allowing us to increase our ownership to 50%, which we intend to exercise in 2003.

In addition to Dopaco, we invested \$129 million in property, plant and equipment and \$131 million in business acquisitions. In the first quarter of 2002, a joint venture company in the Containerboard Group invested \$50 million (US\$31 million) in converting assets in the Boston area, our share amounting to \$25 million. As well, our recovery sector invested \$3 million in the fourth quarter to acquire certain paper recovery assets in the Montréal area.

Management's Discussion and Analysis of Financial Position and Operating Results

Our Tissue Group acquired converting facilities located in Calexico, California, and Waterford, New York, for \$30 million (US\$19 million) at the end of the first quarter, and also invested \$66 million (US\$43 million) to purchase two U.S. tissue manufacturing units in St. Helens, Oregon, and Mechanicville, New York. In addition, during the second quarter our Fine Papers Group completed the \$4 million acquisition of "Distribution Art Graphique Marathon", a graphic arts supplies distributor located in Montréal. Other acquisitions and previous transaction price adjustments amounted to \$3 million during the year.

We also acquired the remaining 5% of the outstanding shares of our European subsidiary, Cascades S.A., during the year for \$7 million. All of these investments were financed with cash flow from operations and borrowings under existing credit facilities.

We expect to make capital expenditures of approximately \$150 million in 2003, primarily to improve productivity and efficiency, and to complete the integration of recently acquired assets. However, our capital expenditures will be affected by the size and nature of new business opportunities and the cash flow generated by our operations, and may therefore be reduced from our current expectations.

Financing activities. During fiscal 2002, we paid dividends of \$11 million. Our total long-term debt decreased by \$26 million during the same period, mainly due to strong cash flow from operations which more than offset the additional borrowings incurred to finance the acquisitions in our Tissue and Containerboard Groups.

At the end of 2002, we undertook a series of financial transactions to substantially refinance all of our existing credit facilities, except those of our joint ventures. This refinancing included several important transactions, which closed in early February 2003. First, we secured a new four-year revolving credit facility for CAN\$500 million. Our obligations under this new revolving credit facility are secured by all the inventory and receivables of Cascades and its North American subsidiaries, excluding our joint ventures, and by the property, plant and equipment of three of our mills.

In addition, we issued new Senior unsecured notes of the company for an aggregate amount of US\$450 million. These notes bear a 7.25% coupon and will mature in 2013. The aggregate proceeds of these two transactions, combined with our available cash on hand, were used to repay the existing credit facilities for an amount of approximately \$695 million at the time of the refinancing. We will also redeem the US\$125 million 8.375% Senior notes due in 2007, issued by our subsidiary, Cascades Boxboard Group Inc. Our notice to redeem these notes was sent to noteholders on February 6, 2003, and this transaction is expected to close during the first quarter 2003.

As a result of this refinancing, our debt service requirements going forward will consist primarily of interest expenses on our outstanding debt. We will have limited amortization requirements to service the debt of our subsidiaries and joint ventures that has not been refinanced. We believe that this refinancing will result in a simpler capital structure and will extend our debt maturities, providing us with improved liquidity and flexibility to meet our future capital requirements.

Management's Discussion and Analysis of Financial Position and Operating Results

Consolidated Financial Position as at December 31, 2002

Cascades' working capital stood at \$386 million as at December 31, 2002 for a ratio of 1.61:1. At the end of 2001, the working capital stood at \$348 million for a ratio of 1.57: 1.

Our long-term debt, including the current portion, totalled \$1,095 million at the end of 2002, approximately the same as last year. Our total net indebtedness stood at \$1,157 million compared to \$1,173 million in 2001. Shareholders' equity rose from a restated amount of \$870 million at the end of 2001 to \$1,065 million at the end of 2002. Consequently, our net funded debt to total capitalization ratio came down from 51.4% as at December 31, 2001 to 46.7% as at December 31, 2002.

Risks and Uncertainties

	Price change (a)	EBITDA (in millions of \$)	Net earnings (b) (in millions of \$)
Boxboard	+ US\$10/st	13	9
Containerboard	+ US\$10/st	11	7
Tissue paper	+ US\$10/st	6	4
Fine papers	+ US\$10/st	5	3
Waste paper	+ US\$10/st	(29)	(19)
Commercial pulp	+ US\$10/mt	(4)	(3)
Natural gas	+ US\$0.10/mmbtu	(2)	(1)
US dollar	+ US\$0.01/CAN\$1.00	(7)	1

(a) For purposes of this analysis, we have assumed an exchange rate of \$1.50 for US\$1.00

(b) For purposes of this table, the change in net earnings equals the after-tax change in EBITDA using a 35% effective tax rate. The US dollar variation also includes the effect of the Senior notes' interest and exchange rate on U.S. denominated debt considering the refinancing completed in February 2003.

The table above quantifies the impact on our consolidated EBITDA and net earnings of possible changes not only in the prices for our main products and raw materials, but also in the exchange rate on the US dollar and in the cost of natural gas.

To reduce their vulnerability to selling price fluctuations, some units have implemented risk management programs concerning their selling prices through agreements with major clients for periods of three to five years.

Recycled and virgin fibre are the principal raw materials used in the manufacture of our products and represent the most important cost of production. In facilities where proper de-inking equipment is in place, virgin pulp may at times be replaced by waste papers, allowing flexibility in recipes.

We presently use over fifty different grades of waste papers separated into three different groups: white grades, groundwoods and brown grades, which do not share the same pricing patterns. List prices for these groups do not always follow the same trends as they are heavily influenced by economic conditions and foreign demand.

More than 60% of the fibre that we use is recycled. Historically, there has been a correlation between price fluctuation for recycled fibre and for finished products. This correlation helps us to maintain relatively stable operating margins through industry cycles, compared to competitors who rely more heavily on internally produced virgin fibre.

Management's Discussion and Analysis of Financial Position and Operating Results

Historical Yearly Costs of Selected Raw Material

	2002	2001	2000
Old Corrugated Container	\$62	\$34	\$74
Sorted Office Paper	\$99	\$75	\$141
Virgin NBSK pulp	\$490	\$558	\$685

Prices for Old Corrugated Containers and Sorted Office Paper are expressed in US\$/short ton, prices of NBSK pulp and are expressed in US\$/metric tonne (Source: Pulp and Paper Week).

After the cost of fibre, our most significant production costs are for labour and energy. Although labour costs have remained relatively steady on a per-ton basis, our energy costs have fluctuated significantly. Natural gas costs peaked in the first quarter of 2001 at approximately \$10.72 per gigajoule, but have since declined to \$6.41 per gigajoule during the fourth quarter of 2002. From time to time, we may negotiate term contracts to protect ourselves against increases in energy prices, especially for natural gas, and to stabilize prices for periods of less than 12 months. We also have recourse to a variety of financial instruments to reduce the risks related to currency and interest rate fluctuations. For example, we can negotiate forward exchange contracts that can cover up to 50% of the net exchange risk for periods of 12 to 24 months.

Taking into account the refinancing that took place in February 2003, a large portion of our long-term debt, amounting to US\$450 million, will be at a fixed rate. The interest on this debt will also have to be paid in U.S. dollars. In addition, we will have an available credit facility of CAN\$500 million at a floating rate. The remainder of the debt, which has not been refinanced, mostly requires fixed-rate interest payments.

Environmental Issues

We are subject to environmental laws and regulations imposed by the various levels of government authorities in all the countries where we are established. These environmental requirements relate to air emissions, wastewater discharge, landfill operations and waste management, among other issues. We are also subject to the U.S. Federal Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, in the United States, and other legislation in the United States, Canada and Europe that holds companies liable for the investigation and remediation of hazardous substances which attribute fault or negligence.

We are currently in compliance with all applicable environmental legislation or regulations. However, we expect to incur ongoing capital and operating expenses to achieve and maintain compliance with applicable environmental requirements.

Management's Discussion and Analysis of Financial Position and Operating Results

Introduction of New Accounting Policies

In 2003, Cascades will have to apply the new accounting rules introduced by the CICA.

Hedging Relationships

In November 2001, the CICA issued Accounting Guideline 13 (AcG-13), "Hedging Relationships." Subsequently, the AcSB deferred the effective date of AcG-13 to fiscal years beginning on or after July 1, 2003.

AcG-13 addresses the identification, designation, documentation and effectiveness of hedging relationships for the purposes of applying hedge accounting. In addition, it deals with the discontinuance of hedge accounting and establishes conditions for applying hedge accounting.

Under this new guideline, the Company will be required to document its hedging relationships and explicitly demonstrate that the hedges are sufficiently effective in order to continue accrual accounting for positions hedged with derivatives. Otherwise, the derivative instrument will need to be mark-to-market through the statement of earnings of the current year. The impact of adopting this new guideline has not yet been determined.

Long-lived Assets

In 2002, the CICA issued Section 3475 "Disposal of Long-Lived Assets and Discontinued Operations", which will apply to disposal activities initiated on or after May 1, 2003. This new Section sets standards for recognition, measurement, presentation and disclosure of the disposal of long-lived assets. It also sets standards for the presentation and disclosure of discontinued operations.

The CICA also issued Section 3063, "Impairment of Long-lived Assets," effective for fiscal years beginning on or after April 1, 2003. This Section sets standards for the recognition, measurement and disclosure of the impairment of long-lived assets.

Guarantees

Guideline AcG-14, "Disclosure of Guarantees," requires entities to disclose key information about certain types of guarantee contracts that require payments contingent on specified types of future events. Disclosures include the nature of the guarantee, how it arose, the events or circumstances that would trigger performance under the guarantee, maximum potential future payments under the guarantee, the carrying amount of the related liability, and information about recourse or collateral. This Guideline will be effective for fiscal years beginning on or after January 1, 2003.

Management's Discussion and Analysis of Financial Position and Operating Results

Outlook for 2003

While we expect the economic slowdown to continue in some of our markets, we are confident that our diversification and strong positioning in a number of consumer markets will allow Cascades as a whole to record once again good results in 2003 when compared to the North American industry.

We also continue to expect that the strength of our cash flow, combined with a capital expenditure budget of \$150 million, may make it possible to further reduce our indebtedness ratio, depending on what acquisition opportunities arise during the course of the year. Because we believe in taking advantage of good opportunities, we may at times temporarily increase this indebtedness ratio to make an acquisition that will contribute to earnings accretions. Our long-term stated objective, however, is still to keep our net funded debt to total capitalization ratio under 50%.

In the Boxboard Group, we expect 2003 to be a year of consolidation and optimization. Other than our stated interest in acquiring a further 10% stake in Dopaco Inc. and raising our total participation to 50%, we do not foresee any major investments in North America. On both continents, we will seek to further reduce costs and improve quality. Part of this effort will involve a major two-year investment program to upgrade our La Rochette mill, which will total approximately €10 million.

Throughout 2003, the Containerboard Group will continue to curtail its production levels to meet customer demand. We anticipate that this Group's positioning in the Canadian market will continue to benefit it when compared to many of its North American peers. The Group will, however, continue to seek acquisition opportunities, mostly in the United States, that would allow it to further increase its North American integration level. At the end of 2002, taking into account market-related downtime at the containerboard mills, the Group's North American integration level stood at 58%. The Containerboard Group may feel the impact of increased volatility in the cost of Old Corrugated Containers (OCC), an important commodity used by the recycled pulp mills. However, any uptrends in OCC prices will likely be matched by the selling prices of both linerboard and corrugated medium within a relatively short time.

As for the Specialty Products Group, the rationalization of certain less profitable assets will also continue. Moreover, this group will further explore acquisition opportunities in the paper recovery sector, and may attempt to further integrate its de-inked pulp units with other segments. We will also continue to develop value-added products in the plastics, honeycomb and packaging for the pulp and paper industry sub-segments.

For the Tissue Group, 2003 will for the most part be a year of consolidation. The priority will be to integrate the assets acquired in 2002 and further decrease production costs. In early 2003, we will upgrade our St. Helens paper machine for an amount of approximately US\$ 3 million, increasing its capacity by 15,000 short tons, or 25%. We are confident the market will fully absorb this new output. We will also focus on optimizing our newly acquired Mechanicville, New York mill, which was idle at the time of purchase. We intend to continue our efforts in developing higher quality products, which tend to generate higher margins overall. We are also planning to restart some of the converting capacity acquired in 2002, further raising our integration level. The Tissue Group will continue to actively seek new acquisition opportunities that will create value for our shareholders.

Management's Discussion and Analysis of Financial Position and Operating Results

Lastly, in the Fine Papers Group, we continue to anticipate a low pricing environment for coated papers in 2003, driven by Asian and European imports. The productivity of our Thunder Bay coated-paper mill should continue to be good, but prices will be relatively low. As for our uncoated paper mill in Saint-Jérôme, Québec, our positioning in specialty papers niche markets should allow us to continue performing well. Our distribution business, which accounts for approximately 50% of the Fine Papers Group's net sales, will continue to feel the pinch of soft demand. In this sector, we will focus on tight inventory control and on expanding our product offering with supplies and software solutions for the graphic arts industry.

We expect recycled fibre prices to be quite volatile in 2003. Recent year shutdowns of recycled-based capacity in North America have reduced the demand for waste papers considerably, but new capacity coming online in Asia may contribute to North American price increases. White grades of waste papers, which can be used as chemical pulp substitutes, have shown substantial price increases in 2002, and have had an impact on our tissue margins during the last quarters of 2002. We anticipate that prices for these waste papers will stabilize in 2003.

Whether we actually see an increase in waste paper prices or not will depend on a number of factors, such as overseas transportation costs, changes in the US dollar exchange rate, and the level of recovery rates in different countries, which tend to be price-sensitive. We feel that the historical correlation between the price of waste paper and those of the associated finished goods will hold, and both should continue to move in tandem, thus mitigating the impact on our margins.

Quarterly Results

(in millions of dollars, except amounts per share)
(unaudited)

	2002					2001				
	March 31	June 30	Sept. 30	Dec. 31	Total	March 31	June 30	Sept. 30	Dec. 31	Total
Net sales	801	857	874	843	3,375	733	754	757	779	3,023
EBITDA	105	109	110	100	424	79	90	106	105	380
Operating income	71	75	74	65	285	48	58	74	68	248
Net earnings per share	55	40	34	40	169	9	54	28	18	109
	\$0.67	\$0.50	\$0.41	\$0.49	\$2.07	\$0.11	\$0.66	\$0.34	\$0.22	\$1.33
Net earnings excluding unusual items per share	36	43	34	40	153	—	38	26	41	105
	\$0.44	\$0.53	\$0.41	\$0.49	\$1.87	—	\$0.46	\$0.31	\$0.51	\$1.28

Management's and Auditors' Report

Management's Report

The consolidated financial statements for the years ended December 31, 2002 and 2001 were completed by the management of Cascades Inc., reviewed by the Audit Committee and approved by the Board of Directors. They were prepared in accordance with accounting principles generally accepted in Canada and are consistent with the Company's business.

The Company and its subsidiaries maintain high-quality systems of internal controls. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable. The information included in this Annual Report is consistent with the financial statements contained herein.

The financial statements have been audited by PricewaterhouseCoopers LLP, whose report is provided below.



Laurent Lemaire
President and Chief Executive Officer
Kingsey Falls, Canada
January 28, 2003

Auditors' Report to the Shareholders of Cascades Inc.

We have audited the consolidated balance sheets of Cascades Inc. (the "Company") as at December 31, 2002 and 2001 and the consolidated statements of earnings, retained earnings and cash flow for each of the years in the three-year period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flow for each of the years in the three-year period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.



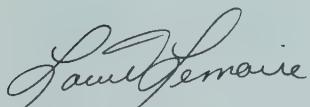
Chartered Accountants
Montréal, Canada
January 28, 2003 (February 6, 2003 for note 7 (a))

Consolidated Financial Statements

Consolidated Balance Sheets

As at December 31, 2002 and 2001 (in millions of Canadian dollars)	Note	2002	2001
Assets			
Current assets			
Cash and cash equivalents		38	31
Accounts receivable		500	491
Inventories	4	478	438
		1,016	960
Property, plant and equipment	5	1,604	1,481
Other assets	6	260	224
Goodwill	6	79	68
		2,959	2,733
Liabilities and Shareholders' Equity			
Current liabilities			
Bank loans and advances		100	101
Accounts payable and accrued liabilities		483	451
Current portion of long-term debt			
With recourse		16	19
Without recourse		31	41
		630	612
Long-term debt	7		
With recourse		278	268
Without recourse		770	775
Other liabilities	8	216	208
Shareholders' equity			
Capital stock	9	268	260
Retained earnings		749	594
Cumulative translation adjustments		48	16
		1,065	870
		2,959	2,733

Approved by the Board of Directors



Laurent Lemaire
Director



Bernard Lemaire
Director

Consolidated Financial Statements

Consolidated Statements of Retained Earnings

For the three-year period ended December 31, 2002 (in millions of Canadian dollars)	Note	2002	2001	2000
Balance—Beginning of year				
As previously reported		615	505	479
Changes in accounting policies	2	(21)	(10)	(44)
As restated		594	495	435
Net earnings for the year		169	109	67
Dividends on common shares		(10)	(9)	(7)
Dividends on preferred shares		(1)	(1)	—
Excess of common share redemption price on their paid-up capital		(3)	—	—
Balance—End of year		749	594	495

Consolidated Statements of Earnings

For the three-year period ended December 31, 2002 (in millions of Canadian dollars, except per share amounts)	Note	2002	2001	2000
Sales		3,591	3,217	3,031
Cost of delivery		216	194	165
Net sales		3,375	3,023	2,866
Cost of sales and expenses				
Cost of sales		2,592	2,325	2,245
Selling and administrative expenses		359	318	282
Amortization		139	132	125
		3,090	2,775	2,652
Operating income		285	248	214
Interest expense		72	86	89
Foreign exchange loss on long-term debt		—	14	10
Unusual losses (gains)	11	4	(7)	1
		209	155	114
Provision for income taxes	12	61	49	49
Share of earnings of significantly influenced companies	10	(22)	(3)	(5)
Share of earnings attributed to non-controlling interests		1	—	3
Net earnings for the year		169	109	67
Basic net earnings per common share		2.07	1.33	1.00
Diluted net earnings per common share		2.05	1.33	1.00
Weighted average number of common shares outstanding during the year		81,482,507	80,927,164	66,902,210

Consolidated Financial Statements

Consolidated Statements of Cash Flows

For the three-year period ended December 31, 2002
(in millions of Canadian dollars)

	Note	2002	2001	2000
Operating activities				
Net earnings for the year		169	109	67
Items not affecting cash				
Amortization		139	132	125
Foreign exchange loss on long-term debt		—	14	10
Unusual losses (gains)		4	(3)	1
Future income taxes		13	2	11
Share of earnings of significantly influenced companies		(22)	(3)	(5)
Share of earnings attributed to non-controlling interests		1	—	3
Others		9	(2)	2
		313	249	214
Changes in non-cash working capital components	13 (a)	12	65	(45)
		325	314	169
Investing activities				
Purchases of property, plant and equipment		(129)	(116)	(148)
Other assets		(21)	(2)	(7)
Business acquisitions, net of cash acquired	3 (a)	(131)	(148)	(31)
Business disposals, net of cash disposed	3 (b)	4	—	1
		(277)	(266)	(185)
Financing activities				
Bank loans and advances		—	(16)	25
Increase in long-term debt		89	53	92
Payments of long-term debt		(115)	(82)	(62)
Non-controlling interests		(7)	(5)	(9)
Dividends		(11)	(10)	(7)
		(44)	(60)	39
Change in cash and cash equivalents during the year		4	(12)	23
Translation adjustments on cash and cash equivalents		3	2	(1)
Cash and cash equivalents—Beginning of year		31	41	19
Cash and cash equivalents—End of year		38	31	41

Segmented Information

For the three-year period ended December 31, 2002
(in millions of Canadian dollars)

The Company's operations are organized into three segments: packaging products, tissue papers and fine papers. The classification of these operating segments is based on the primary operations of the main subsidiaries and joint ventures of the Company.

The Company analyzes the performance of its operating segments based on their EBITDA which is defined as earnings before income taxes, share of earnings attributed to non-controlling interests, share of earnings of significantly influenced companies, unusual losses (gains), interest expense, foreign exchange loss on long-term debt and amortization. EBITDA is not a measure of performance under Canadian generally accepted accounting principles ("Canadian GAAP"); however, management uses this performance measure for assessing the operating performance of its reportable segments. Earnings for each segment are prepared on the same basis as those of the Company. Intersegment operations are recorded on the same basis as sales to third parties, which is at fair market value. Net sales, EBITDA and amortization, purchases of property, plant and equipment, identifiable assets and goodwill of the Company presented by the reportable segments are as follows:

Net Sales

	2002	2001	2000
Packaging products			
Boxboard			
North America	509	442	405
Europe	449	412	400
	958	854	805
Containerboard ⁽¹⁾			
Manufacturing	346	347	362
Converting	468	400	376
Other and eliminations	(206)	(196)	(202)
	608	551	536
Specialty products	455	444	488
Eliminations	(40)	(24)	(32)
	1,981	1,825	1,797
Tissue papers			
Manufacturing	600	425	307
Distribution	106	105	14
Eliminations	(24)	(19)	(1)
	682	511	320
Fine papers			
Manufacturing	416	418	450
Distribution	419	405	442
Eliminations	(65)	(77)	(87)
	770	746	805
Eliminations	(58)	(59)	(56)
Total	3,375	3,023	2,866

(1) The Company's containerboard sub-segment consists entirely of its interest in Norampac Inc. ("Norampac"), a joint venture.

Segmented Information

For the three-year period ended December 31, 2002
(in millions of Canadian dollars)

EBITDA and amortization

	2002	2001	2000
Packaging products			
Boxboard			
North America	40	35	28
Europe	48	52	39
	88	87	67
Containerboard ⁽¹⁾			
Manufacturing	47	67	77
Converting	50	38	41
Others and eliminations	9	7	7
	106	112	125
Specialty products	57	54	64
	251	253	256
Tissue papers			
Manufacturing	128	86	36
Distribution	8	10	-
	136	96	36
Fine papers			
Manufacturing	27	18	26
Distribution	10	13	21
	37	31	47
Total EBITDA	424	380	339
Amortization			
Boxboard	(49)	(47)	(46)
Containerboard	(37)	(35)	(32)
Specialty products	(24)	(25)	(24)
Tissue papers	(32)	(28)	(23)
Fine papers	(11)	(11)	(12)
Eliminations	14	14	12
	(139)	(132)	(125)
Operating income	285	248	214

(1) The Company's containerboard sub-segment consists entirely of its interest in Norampac, a joint venture.

Segmented Information

For the three-year period ended December 31, 2002
(in millions of Canadian dollars)

Purchases of property, plant and equipment

	2002	2001	2000
Packaging products			
Boxboard			
North America	11	9	11
Europe	17	14	15
	28	23	26
Containerboard ⁽¹⁾			
Manufacturing	18	21	19
Converting	10	26	24
	28	47	43
Specialty products	25	24	30
	81	94	99
Tissue papers			
Manufacturing	31	16	35
Distribution	—	1	—
	31	17	35
Fine papers			
Manufacturing	16	10	11
Distribution	1	1	3
	17	11	14
Total	129	122	148

(1) The Company's containerboard sub-segment consists entirely of its interest in Norampac, a joint venture.

Identifiable assets

	2002	2001
Packaging products		
Boxboard	829	818
Containerboard ⁽¹⁾	746	710
Specialty products	472	469
	2,047	1,997
Tissue papers		
	609	507
Fine papers		
	371	363
Consolidation revaluation	(205)	(207)
Intersegment eliminations	(47)	(72)
	2,775	2,588
Investments	184	145
Total	2,959	2,733

(1) The Company's containerboard sub-segment consists entirely of its interest in Norampac, a joint venture.

Segmented Information

For the three-year period ended December 31, 2002
(in millions of Canadian dollars)

	2002	2001
Goodwill		
Packaging products		
Boxboard	—	1
Containerboard ⁽¹⁾	67	49
Specialty products	2	8
	69	58
Tissue papers	10	10
Total	79	68

(1) The Company's containerboard sub-segment consists entirely of its interest in Norampac, a joint venture.

Sales, property, plant and equipment and goodwill of the Company presented by the geographic segments are as follows:

	2002	2001	2000
Sales			
Canada			
Within Canada	1,747	1,659	1,620
To the United States	636	656	665
Offshore	47	47	58
	2,430	2,362	2,343
United States			
Within the United States	596	341	193
To Canada	20	9	9
Offshore	2	—	—
	618	350	202
Europe			
Within Europe	460	436	418
To the United States	10	10	11
To other countries	71	58	57
	541	504	486
Mexico	2	1	—
Total	3,591	3,217	3,031

	2002	2001
Property, plant and equipment		
Canada	1,003	1,000
United States	361	272
Europe	239	208
Mexico	1	1
Total	1,604	1,481

	2002	2001
Goodwill		
Canada	58	59
United States	21	8
Europe	—	1
Total	79	68

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

1 Accounting policies

Basis of presentation

The consolidated financial statements have been prepared in accordance with Canadian GAAP and include the significant accounting policies listed below.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. They also include the portion of the accounts of the joint ventures accounted for through the proportionate consolidation method. Investments in significantly influenced companies are accounted for using the equity method.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the balance sheet date, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they are known.

Revenue recognition

The Company recognizes its sales when goods are shipped and when the significant risks and benefits of ownership are transferred.

Fair market value of financial instruments

The Company has estimated the fair market value of its financial instruments based on current interest rates, market value and current pricing of financial instruments with similar terms. Unless otherwise disclosed herein, the carrying value of these financial instruments, especially those with current maturities, such as cash and cash equivalents, accounts receivable, inventories, bank loans and advances, and accounts payable and accrued liabilities, approximates their fair market value.

Derivative financial instruments

The Company uses derivative financial instruments in the management of its foreign currency, commodity and interest rate exposures. Except for certain interest rate swap agreements, the Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Company documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also assesses whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

Foreign exchange forward contracts In order to reduce the potential adverse effects of currency fluctuation, the Company enters into various foreign exchange forward contracts. Foreign exchange translation gains and losses on foreign currency-denominated derivative financial instruments used to hedge anticipated sales or purchases denominated in foreign currencies are recognized as an adjustment of the sales or cost of sales when the sale or purchase is recorded.

Commodity contracts The Company enters into swap and forward contracts, whereby it may set the price on notional quantities of certain raw materials or finished goods in order to reduce the potential adverse effects of changes in the cost of its raw materials or in the selling prices of its finished goods. Realized or unrealized gains and losses arising from these contracts are recognized in sales or cost of sales when the sale or purchase of the underlying commodity is recorded.

Interest rate swap agreements The Company also enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on a portion of its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates these interest rate swap agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps designated as hedges.

Others Realized and unrealized gains or losses associated with derivative financial instruments, which have been terminated or cease to be effective prior to maturity, are deferred under current assets or current liabilities and recognized in earnings in the period in which the underlying original hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative financial instrument, any realized or unrealized gains or losses on such derivative financial instruments are recognized in earnings.

Derivative financial instruments that are not designated as hedges or have ceased to be effective prior to maturity are recorded at their estimated fair values under current or long-term assets or current or long-term liabilities with changes in their estimated fair values recorded in earnings. Estimated fair value is determined using pricing models that incorporate current market prices and the contractual prices of the underlying instruments, the time value of money and yield curves.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term liquid investments with original maturities of three months or less.

Inventories

Inventories of finished goods are valued at the lower of average production cost and net realizable value. Inventories of raw materials and supplies are valued at the lower of cost and replacement value. Cost of raw materials and supplies is determined using the average cost and the first-in, first-out methods, respectively.

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

Property, plant and equipment and amortization

Property, plant and equipment are recorded at cost, including interest incurred during the construction period of certain property, plant and equipment. Amortization is calculated on a straight-line basis at annual rates varying from 3% to 5% for buildings, 5% to 10% for machinery and equipment, and 15% to 20% for automotive equipment, determined according to the estimated useful life of each class of property, plant and equipment.

Grants and investment tax credits

Grants and investment tax credits are accounted for using the cost reduction method and are amortized to earnings as a reduction of amortization, using the same rates as those used to amortize the related property, plant and equipment.

Other investments

Other investments are recorded at cost except when there is a decline in value that is other than temporary, in which case they are reduced to their estimated net realizable value.

Goodwill

Effective January 1, 2002, goodwill is not amortized but instead the Company assesses periodically whether a provision for impairment in the value of goodwill should be recorded to earnings. This is accomplished mainly by determining whether projected discounted future cash flows exceed the net book value of goodwill of the respective business units. Goodwill is tested for impairment annually on December 31, or when an event or circumstance occurs that could potentially result in a permanent decline in value.

Until the implementation of the new recommendation on January 1, 2002, as described in note 2(a), goodwill previously recorded was amortized on a straight-line basis over periods not exceeding 25 years. However, goodwill arising from business combinations initiated on or after July 1, 2001 is not amortized in accordance with the transitional provisions of the new recommendation of the Canadian Institute of Chartered Accountants ("CICA") dealing with goodwill and other intangible assets.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization and include, in particular, the issuance costs of long-term debt, which are amortized on a straight-line basis over the anticipated period of repayment of the respective debt, and start-up costs, which are amortized on a straight-line basis over a period of three to five years from the end of the start-up period.

Environmental costs

Environmental expenditures, including site rehabilitation costs, are expensed or capitalized depending upon their future economic benefit. Expenditures incurred to prevent future environmental contamination are capitalized and amortized on a straight-line basis at annual rates varying from 3% to 10%. Expenditures that relate to an existing condition caused by past operations, and that do not contribute to current or future revenue generation, are expensed. A provision for environmental costs is recorded when it is probable that a liability has been incurred and the costs can be reasonably estimated.

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

Employee future benefits

Certain subsidiaries and a joint venture of the Company maintain defined benefit pension plans, which provide retirement benefits for certain employees based upon the length of service and, in certain cases, the final average earnings of the employee. In addition, certain employees are members of defined contribution pension plans and group registered retirement savings plans ("RRSPs"). The Company and its subsidiaries and joint ventures also provide to their employees complementary retirement benefits and other post-employment benefits, such as group life insurance and medical and dental care plans.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on years of service and management's best estimate of expected plan investment performance, salary escalations, retirement ages of employees and expected health care costs.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs arising from a plan amendment are amortized on a straight-line basis over the average remaining service period of the group of employees active at the date of the amendment. The excess of the net actuarial gain or loss over the greater of (a) 10% of the benefit obligation at the beginning of the year, and (b) 10% of the fair value of plan assets at the beginning of the year, is amortized over the average remaining service period of active employees.

Income taxes

The Company uses the liability method in accounting for income taxes. According to this method, future income taxes are determined using the difference between the accounting and tax bases of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect in the year in which these temporary differences are expected to be recovered or settled. Future income tax assets are recognized when it is more likely than not that the assets will be realized.

Foreign currency translation

Foreign currency transactions Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the balance sheet date. Gains and losses related to the portion of the long-term debt designated as a hedge of the net investment of the Company in self-sustaining operations are recorded in the cumulative translation adjustments. Unrealized gains and losses on translation of other monetary assets and liabilities are reflected in the determination of the net results for the year.

Foreign operations The Company's foreign operations are defined as self-sustaining. The assets and liabilities of these operations are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Revenue and expenses are translated at the average exchange rate for the year. Translation gains and losses are deferred and shown as a separate component of shareholders' equity as cumulative translation adjustments.

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

Stock-based compensation

The Company applies the fair value method of accounting for stock-based compensation awards granted to officers and key employees. This method consists of recording expenses to earnings, based on the vesting period of the options granted. The fair value is calculated based on the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. When stock options are exercised, any consideration paid by employees is credited to capital stock.

Until the implementation of the new recommendation of the CICA on January 1, 2002, as described in note 2(c), no compensation cost was recognized when options were granted to employees.

Amounts per common share

Amounts per common share are determined using the weighted average number of common shares outstanding during the year.

Diluted amounts per common share are determined using the treasury stock method to evaluate the dilutive effect of stock options, convertible instruments and equivalents, when applicable. Under this method, instruments with a dilutive effect, basically when the average market price of a share for the period exceeds the exercise price, are considered to have been exercised at the beginning of the period and the proceeds received are considered to have been used to redeem common shares of the Company at the average market price for the period.

2 Changes in accounting policies

a) Goodwill and other intangible assets

On January 1, 2002, the Company adopted the new recommendations of the CICA regarding goodwill and other intangible assets. Under the new recommendations, goodwill and intangible assets with indefinite life are no longer amortized and are tested for impairment annually, based on their fair value. Intangible assets with definite useful lives continue to be amortized. However, no ceiling is placed on the useful lives. These definite-life intangible assets are subject to impairment review in accordance with existing standards. Upon adoption of this recommendation, goodwill was tested for impairment as of January 1, 2002. As a result of the tests performed, the Company concluded that no impairment was necessary on goodwill as at January 1, 2002.

b) Foreign currency translation

On January 1, 2002, the Company adopted retroactively, with restatement of the comparative figures, the new recommendations of the CICA regarding foreign currency translation. The new recommendation eliminates the deferral and amortization of exchange gains and losses arising from the translation of long-term debt and other similar monetary items. Consequently, all translation gains and losses are reported in earnings as they arise. This change resulted in a decrease in other assets and in retained earnings of \$21 million as of January 1, 2002, \$10 million as of January 1, 2001 and \$2 million as of January 1, 2000. It also resulted in a decrease in net earnings of \$11 million (\$0.14 per share) for the year ended December 31, 2001 and of \$8 million (\$0.12 per share) for the year ended December 31, 2000.

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

c) Stock-based compensation

On January 1, 2002, the Company adopted the new recommendations of the CICA regarding stock-based compensation. Under this new standard, stock options are to be recorded under the fair value method, which consists of recording expenses based on the vesting period of the options granted. In accordance with the transitional provisions of these new recommendations, the Company applied the fair value method to stock options granted to its employees and those of its joint ventures after January 1, 2002.

d) Employee future benefits

On January 1, 2000, the Company adopted the recommendations of the CICA regarding employee future benefits. The new standard requires that the cost of employee future benefits be recognized in the period in which the employee has provided the services that give rise to the benefit. The standard also requires the change in the discount rate used to value liabilities and service costs from an estimated long-term rate to a market-based interest rate. The new standard, which has been applied retroactively, without restating the comparative figures, resulted in an increase in other assets of \$8 million, an increase in other liabilities of \$41 million and a decrease in retained earnings of \$22 million, after deduction of related future income taxes of \$11 million.

e) Income taxes

On January 1, 2000, the Company adopted the recommendations of the CICA regarding income taxes. The recommendations require the use of the asset and liability method of accounting for income taxes. Under this method, income taxes are determined using the difference between the accounting and tax bases of assets and liabilities and are measured using substantively enacted tax rates in effect in the year in which these temporary differences are expected to be recovered or settled. The new standard, which has been applied retroactively, without restating the comparatives figures, resulted in a decrease in working capital components of \$2 million, an increase in property, plant and equipment of \$6 million, an increase in future income tax liabilities of \$33 million and a decrease in retained earnings of \$20 million, after deduction of non-controlling interests of \$9 million.

f) Others

Also on January 1, 2000, the Company applied retroactively the new recommendation relating to the calculation of earnings per share.

3 Business acquisitions and disposals

a) Acquisitions

On January 2, 2002, one of the Company's joint ventures increased its investment in Metro Waste Paper Recovery Inc. ("Metro Waste"), another joint venture, in exchange for assets having a net value of \$6 million. On January 21, 2002, one of the Company's joint ventures acquired Star Leominster in the packaging products segment for \$50 million (US\$31 million), the Company's share amounting to \$25 million (US\$15.5 million). On March 27, 2002, the Company acquired converting operations from American Tissue in the tissue papers segment for an amount of \$30 million (US\$19 million). On June 14, 2002, the Company completed the acquisition of two manufacturing units of American Tissue for a consideration of \$66 million (US\$43 million). Other acquisitions and price adjustments on prior transactions amounted to \$10 million.

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

On March 1, 2001, the Company acquired a folding carton plant in the packaging products segment ("Crown Packaging—Boxboard") from Crown Packaging Ltd. and 428959 B.C. Ltd. for a cash consideration of \$11 million. On April 2, 2001, one of the Company's joint venture acquired all the assets of a containerboard mill and eight paper recovery plants in the packaging products segment ("Crown Packaging—Containerboard") from Crown Packaging Ltd. and 428959 B.C. Ltd. for a cash consideration of \$50 million, the Company's share amounting to \$25 million. On September 11, 2001, the Company acquired the assets of two production facilities in the tissue paper segment from Plainwell Inc. ("Plainwell") for a cash consideration of \$90 million (US\$57 million). On November 12, 2001, one of the Company's joint venture acquired all the issued and outstanding shares of Star Corrugated Box Co. ("Star") in the packaging products segment for a cash consideration of \$44 million (US\$28 million), the Company's share amounting to \$22 million (US\$14 million). With respect to the latter, the joint venture may pay additional consideration of \$5 million (US\$3 million) if certain specific earnings objectives are met, the Company's share amounting to \$2.5 million (US\$1.5 million).

In 2000, the Company acquired two businesses, one in the packaging products segment (Armor-Box Corporation) and one in the tissue papers segment (Wyant Corporation) for a total consideration of \$31 million.

These acquisitions have been accounted for using the purchase method and the accounts and results of operations of these entities have been included in the consolidated financial statements since their respective dates of acquisition. The following allocations of the purchase prices to the identifiable assets acquired and liabilities assumed resulted in goodwill of \$17 million as at December 31, 2002 (2001—\$5 million; 2000—\$13 million). None of the above-mentioned goodwill is expected to be deductible for tax purposes, with the exception of an amount of \$2.4 million as at December 31, 2000.

2002	American Tissue	Star Leominster	Metro Waste	Others	Total
	Tissue paper	Packaging products	Packaging products		
Current assets	—	5	2	9	16
Long-term assets	96	9	4	4	113
Goodwill	—	15	2	—	17
	96	29	8	13	146
Current liabilities	—	(2)	(2)	(3)	(7)
Long-term liabilities	—	(2)	—	—	(2)
	96	25	6	10	137
Non-monetary consideration	—	—	(6)	—	(6)
Total consideration	96	25	—	10	131

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

2001	Plainwell	Star	Crown Packaging Boxboard	Crown Packaging Containerboard	Total
	Tissue paper	Packaging products	Packaging products	Packaging products	
Current assets	32	9	9	9	59
Long-term assets	68	18	5	24	115
Goodwill	—	5	—	—	5
Current liabilities	100	32	14	33	179
(10)	(6)	(3)	(8)	(27)	
Long-term liabilities	—	—	—	—	—
Other liabilities	—	(4)	—	—	(4)
Total consideration	90	22	11	25	148

2000	Wyant Corporation	Armor-Box Corporation	Total
Current assets	37	3	40
Long-term assets	22	7	29
Goodwill	11	2	13
Bank loans and advances	70	12	82
Current liabilities	(7)	—	(7)
(25)	(2)	(27)	
Long-term liabilities	(11)	—	(11)
Other liabilities	(6)	—	(6)
Total consideration	21	10	31

b) Disposals

In 2002, the Company sold its retail egg carton operations (packaging products segment) located in Canada for a cash consideration of \$4 million. In 2000, the Company disposed of its 50% interest in a saturated paper and car felt production facility for a total consideration of \$3 million, including a note receivable of \$2 million.

c) Privatization of certain subsidiaries of the Company

On December 31, 2000, the Company acquired the shares held by the non-controlling shareholders in its subsidiaries Paperboard Industries International Inc. (excluding preferred shareholders), Perkins Papers Ltd. and Rolland Inc. in exchange for 13,998,453 common shares of the Company. The fair value of \$6.85 attributed to the shares issued represents the quoted market value of the Company's shares at the date of the transaction, which was December 31, 2000.

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Certain shareholders of these subsidiaries exercised their dissenting rights and asked to be paid the fair market value of their shares in cash as at December 31, 2000. A provision of \$4.5 million has been recorded in the consolidated financial statements as at December 31, 2000 to cover the fair market value of these shares, as estimated by the Company. In 2001, an amount of \$0.2 million was paid in order to buy back shares of different dissenting shareholders. In addition, during the year ended December 31, 2002, the remaining portion of the provision was settled through the issuance of 670,144 common shares to the dissenting shareholders, using the same exchange ratio as the one used in the initial offer.

The excess of \$20 million of the net book value of the non-controlling interests at the date of the transaction over their purchase price has been recorded under the purchase method as a decrease of \$30 million in property, plant and equipment and a decrease of \$10 million in future income tax liabilities.

The Company also agreed with the holders of the Class B preferred shares of a subsidiary that, upon the exercise of their conversion rights into common shares of the subsidiary, the subsidiary's common shares will be exchanged for a total of 872,727 common shares of the Company. As a result, the Class B preferred shares of this subsidiary are shown in shareholders' equity of the Company in the amount of \$6 million, which represents the fair value as at December 31, 2000 of the common shares of the Company, which will be issued upon exercise of the exchange rights. The excess of \$12 million of the net book value of the preferred shares over their fair value has been recorded under the purchase method as a further decrease of \$18 million in property, plant and equipment and an additional decrease of \$6 million in future income tax liabilities.

4 Inventories

	2002	2001
Finished goods	257	238
Raw materials	89	89
Supplies	132	111
	478	438

5 Property, plant and equipment

2002	Cost	Accumulated amortization	Net
Lands	54	—	54
Buildings	421	116	305
Machinery and equipment	2,085	896	1,189
Automotive equipment	49	36	13
Others	49	6	43
	2,658	1,054	1,604
2001	Cost	Accumulated amortization	Net
Lands	50	—	50
Buildings	388	100	288
Machinery and equipment	1,858	764	1,094
Automotive equipment	45	32	13
Others	41	5	36
	2,382	901	1,481

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Property, plant and equipment include assets under capital leases with a cost of \$32 million and accumulated amortization of \$16 million as at December 31, 2002 (2001—\$34 million and \$17 million respectively). Other property, plant and equipment includes items that are not amortized, such as machinery and equipment in the process of installation with a book value of \$20 million (2001—\$20 million), deposits on purchases of property, plant and equipment amounting to \$2 million (2001—\$2 million) and unused properties, machinery and equipment with a net book value of \$17 million (2001—\$7 million) which does not exceed their estimated net realizable value.

Amortization of property, plant and equipment amounted to \$131 million for the year ended December 31, 2002 (2001—\$119 million; 2000—\$113 million).

6 Other assets and goodwill

a) Other assets are detailed as follows:

	Note	2002	2001
Investments in significantly influenced companies		176	141
Other investments		8	4
Deferred charges		21	27
Employee future benefits	14 (b)	52	52
Other definite-life intangible assets		3	—
		260	224

b) Goodwill fluctuated as follows from January 1, 2002 to December 31, 2002:

	Note
Carrying value of goodwill as at January 1, 2002	68
Reclassification to definite-life intangible assets	(4)
Goodwill resulting from acquisitions	3 (a)
Value impairment recorded in earnings	17
Amortization of a deferred gain ⁽¹⁾	(3)
Carrying value of goodwill as at December 31, 2002	1
	79

(1) On December 30, 1997, the Company and Domtar Inc. merged their respective containerboard and corrugated packaging operations to form Norampac, a 50-50 joint venture. A portion of the gain realized on the transaction was recorded against property, plant and equipment and goodwill. Under current accounting standards, the portion of the deferred gain allocated to goodwill is amortized on a straight-line basis over a period of 25 years.

Notes to Consolidated Financial Statements

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c) The following table presents a reconciliation of reported net earnings to adjusted net earnings as required by the transitional provisions of the new recommendation of the CICA regarding goodwill, implemented as at January 1, 2002 as described in note 2(a).

	2002	2001	2000
Reported net earnings	169	109	67
Adjustment:			
Goodwill amortization, net of related income taxes	—	3	2
Adjusted net earnings	169	112	69
Adjusted basic net earnings per common share	2.07	1.37	1.03
Adjusted diluted net earnings per common share	2.05	1.37	1.03

7 Long-term debt

With recourse

The following debts give to their holders recourse rights against certain assets of Cascades Inc. (the parent company) or its general credit. These debts include restrictive and financial covenants.

	Note	2002	2001
Revolving credit facility, variable interest rate of 4.31% as at December 31, 2002 (3.77% as at December 31, 2001)	7 (b)	180	172
Loan of an amount of US\$16 million as at December 31, 2002 (US\$19 million as at December 31, 2001), fixed interest rate of 7.94%, payable through 2008	7 (c)	26	30
Redeemable preferred shares		51	61
Other debts		37	24
Less: Current portion	7 (a)	294	287
		16	19
		278	268

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Without recourse

The following debts of subsidiaries and joint ventures of the Company do not give to their holders any recourse against the assets or general credit of Cascades Inc. These debts without recourse are secured by certain assets of the subsidiaries and include restrictive and financial covenants.

	Note	2002	2001
Revolving credit facilities, weighted average variable rate of 3.81% as at December 31, 2002 (4.25% as at December 31, 2001)	7 (c)	341	313
Acquisition credit facility, weighted average variable rate of 4.17% as at December 31, 2002 (4.57% as at December 31, 2001)	7 (d)	26	38
8.375% Senior Notes, maturing in 2007	7 (a), (f), (i)	197	199
9.50% and 9.375% Senior Notes, maturing in 2008	7 (g), (j)	169	170
Loans, weighted average variable rate of 6.60% as at December 31, 2002 (5.29% as at December 31, 2001)		34	57
Loans, weighted average fixed rate of 2.67% as at December 31, 2002 (5.52% as at December 31, 2001)		5	9
Capital lease obligations	7 (j), (l)	20	24
Other debts		9	6
		801	816
Less: Current portion	7 (a)	31	41
		770	775

a) On February 5, 2003, the Company completed the issuance of US\$450 million of 7.25% unsecured Senior Notes due 2013 in a private placement to institutional investors. At the same time, the Company also entered into a new four-year \$500 million revolving credit facility. A portion of the proceeds from these issuances was used to refinance substantially all of the Company's long-term debt with the exception of that of its joint ventures. In addition, on February 6, 2003, one of the Company's subsidiaries announced that it was exercising its right to redeem all US\$125 million of its 8.375% unsecured Senior Notes due 2007. These unsecured Senior Notes will be redeemed on March 12, 2003 at a redemption price of 104.188% of the aggregate principal amount of the Senior Notes plus any accrued and unpaid interest.

The current portion of long-term debt as at December 31, 2002 reflects the impact of this comprehensive refinancing. Of the total debt of the Company amounting to \$1,095 million as at December 31, 2002, \$788 million was refinanced. The most important debts not subject to the refinancing are the 9.50% and 9.375% Senior Notes maturing in 2008 and the redeemable preferred shares.

b) The Company has a credit facility for an authorized amount of \$225 million which converts, after a revolving period of two years and unless a renewal is agreed to annually, into a term loan repayable over a period of three years.

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
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- c) The subsidiaries and joint ventures of the Company have available revolving credit facilities for an authorized amount totalling CAN\$317 million and US\$130 million. These credit facilities mature as follows: CAN\$255 million in 2003, US\$30 million in 2005, CAN\$62 million declining during the period from 2003 to 2004, until complete extinguishment, and US\$100 million declining during the period from 2003 to 2005.
- d) A subsidiary of the Company has an acquisition credit facility of a maximum of \$26 million as at December 31, 2002 (December 31, 2001—\$38 million) available by way of term loans on a declining, non-revolving basis. The available credit is reduced quarterly by \$2 million starting in December 2001 until June 2003, the balance being payable in September 2003.
- e) The redeemable preferred shares include 2,011,337 Class A preferred shares of a subsidiary. These shares provide for a cumulative quarterly dividend of 1.25% of their accrued redemption amount of \$51 million, of which \$1 million represents the dividends accrued for the first three years following their issuance and payable upon redemption. In 2001, the Company renegotiated the redemption terms of these preferred shares over a period of 6 years starting November 30, 2001. As part of the renegotiation, the Company undertook to guarantee the payments to be made by its subsidiary under the revised redemption terms. The accrued dividends are payable over a period of 3 years starting November 30, 2001. These payments are considered in note 7(k).
- f) These unsecured Senior Notes are repayable prior to maturity at the option of the subsidiary, in whole or in part and under certain conditions, subject to payment of a redemption premium.
- g) These unsecured Senior Notes are repayable prior to maturity at the option of the joint venture, in whole or in part and under certain conditions, subject to payment of a redemption premium.
- h) As at December 31, 2002, the long-term debt included amounts denominated in foreign currencies of US\$229 million and €44 million (US\$232 million and €76 million as at December 31, 2001).
- i) As at December 31, 2002, accounts receivable and inventories totalling approximately \$708 million, as well as property, plant and equipment totalling approximately \$538 million, are being pledged as collateral for bank loans and advances and long-term debt.
- j) The fair value of the Senior Notes and the capital lease obligations was estimated at \$394 million as at December 31, 2002 (December 31, 2001—\$390 million) based on the market value of the Senior Notes and on discounted future cash flows using interest rates available for issues with similar terms and average maturities.
- k) The estimated aggregate amount of repayments on long-term debt, taking into account the terms of the comprehensive refinancing described in note 7 (a) but excluding capital lease obligations, in each of the next five years is as follows:

Years ending December 31,	2003	39
	2004	25
	2005	24
	2006	43
	2007	7

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
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I) As at December 31, 2002, future minimum payments under capital lease obligations are as follows:

Years ending December 31,	2003	8
	2004	7
	2005	1
	2006	1
	2007	1
	Thereafter	4
		22
Less: Interest (weighted average rate of 4.67%)		2
		20
Less: Current portion		8
		12

m) As at December 31, 2002, the Company and its subsidiaries and joint ventures had unused lines of credit on short-term and long-term credit facilities of \$83 million and \$248 million respectively (\$82 million and \$297 million respectively as at December 31, 2001).

n) The effective interest rate on the Company's short-term borrowing was 4.50% as at December 31, 2002 (4.00% as at December 31, 2001).

8 Other liabilities

	Note	2002	2001
Employee future benefits	14 (b)	72	66
Future income taxes	12 (c)	142	124
Non-controlling interests		2	18
		216	208

9 Capital stock

	Note	2002	2001
Common shares	9 (a)	261	254
Preferred shares of a subsidiary	9 (b)	6	6
Adjustment relating to stock options	9 (c)	1	—
		268	260

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
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a) The authorized capital stock of the Company consists of an unlimited number of common shares, without nominal value. Over the past three years, the common shares have fluctuated as follows:

		2002		2001		2000
	Note	Number of shares		Number of shares		Number of shares
Balance—Beginning of year		80,987,466	254	80,900,663	254	66,902,210
Shares issued on exercise of stock options	9 (c)	407,062	3	86,803	—	—
Redemption of common shares	9 (d)	(238,400)	(1)	—	—	—
Shares issued on privatization	3 (c)	670,144	5	—	—	13,998,453
Balance—End of year		81,826,272	261	80,987,466	254	80,900,663
						254

b) The 4,300,000 Class B preferred shares of a subsidiary are convertible into common shares of the subsidiary, which will be exchanged, in accordance with an agreement with the holders, into a total of 872,727 common shares of the Company. These preferred shares provide for a cumulative quarterly dividend of 0.25% of their redemption price. These shares are redeemable by the subsidiary at any time at a price of \$25 per share.

c) Under the terms of a share option plan adopted on December 15, 1998 for officers and key employees of the Company and its joint ventures, 7,268,331 common shares have been specifically reserved for issuance. Each option will expire at a date not to exceed ten years following the date the option was granted. The exercise price of an option shall not be lower than the market value of the share at the date of grant, determined as the average of the closing price of the share on the Toronto Stock Exchange on the five trading days preceding the date of grant. The terms for exercising the options are 25% of the number of shares under option within twelve months after the date of grant, and up to an additional 25% each twelve months after the first, second and third anniversary dates of grant. The options cannot be exercised if the market value of the share is lower than its book value at the date of grant.

In 2000, as part of the privatization described in note 3(c), the Company granted to officers and key employees of its subsidiaries 713,298 options to buy common shares of the Company, in exchange for the cancellation of the share options of the subsidiaries owned by these employees. The terms of the new options are the same as of the former options, except for the exercise price and the number of shares, which have been adjusted based on the exchange ratio used for the privatization.

Changes in the number of options outstanding as at December 31 are as follows:

		2002		2001		2000
		Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
			\$		\$	
Beginning of year		1,492,652	7.44	1,166,337	7.64	453,039
Granted		324,113	13.24	532,310	6.82	713,298
Exercised		(407,062)	7.13	(86,803)	3.43	—
Forfeited		(31,093)	10.79	(119,192)	9.59	—
End of year		1,378,610	8.82	1,492,652	7.44	1,166,337
Options exercisable—End of year		886,413	8.19	840,313	7.34	444,423
						6.26

Notes to Consolidated Financial Statements

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The following options were outstanding as at December 31, 2002:

Year granted	Options outstanding		Options exercisable		
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Expiration
		\$		\$	
1996	97,702	6.47	97,702	6.47	2003 to 2006
1999	387,820	8.51	387,820	8.51	2009
2000	130,819	7.72	98,115	7.72	2010
2001	448,836	6.82	224,418	6.82	2011
2002	313,433	13.24	78,358	13.24	2012
	1,378,610		886,413		

The following assumptions were used to estimate the fair value, at the date of grant, of each option issued to employees on or after January 1, 2002:

Risk-free interest rate	4.9%
Expected dividend yield	1.19%
Expected life of the options	6 years
Expected volatility	26%

During the year ended December 31, 2002, the Company issued 324,113 options having a weighted average fair value of \$4.32 per option. Accordingly, \$1 million has been recognized in expenses for the share option plan during the year ended December 31, 2002, as well as an adjustment to capital stock for the equivalent amount.

d) In 2001, in the normal course of business, the Company had renewed its redemption program of a maximum of 4,000,000 common shares with the Toronto Stock Exchange, which represented approximately 5% of issued and outstanding common shares. The redemption authorization was valid from September 27, 2001 to September 26, 2002. In 2002, the Company redeemed 238,400 common shares (2001—nil) under this redemption program.

10 Share of earnings of significantly influenced companies

On February 20, 2002, a significantly influenced company, Boralex Inc., sold seven power stations to an income fund. The Company thus realized a gain of \$18 million net of related future income taxes of \$5 million, representing its share of the net gain realized by this significantly influenced company.

Notes to Consolidated Financial Statements

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11 Unusual losses (gains)

	Note	2002	2001	2000
Cain on dilution and disposal of an investment	11 (a)	(1)	(30)	—
Cain on expropriation of lands		—	(4)	—
Loss (gain) on business disposal	11 (b)	5	(2)	(8)
Other expenses	11 (c)	—	18	7
Expenses related to business closures	11 (d)	6	11	2
Other income	11 (e)	(6)	—	—
		4	(7)	1

- a) In 2002, the Company realized a gain of \$1 million resulting from the dilution of its investments in a significantly influenced company. In 2001, Boralex Inc., a significantly influenced company, concluded two issuances of 4,000,000 common shares each, resulting in a dilution of the Company's interest. In addition, during the year, the Company disposed of 2,000,000 shares of this entity, for a consideration of \$11 million. These transactions resulted in a gain of \$30 million, of which \$23 million represents the gain on dilution and \$7 million the gain on disposal of an investment.
- b) In 2002, the Company sold its retail egg carton operations located in Canada, realizing a loss of \$5 million. In 1999, the Company disposed of its 50% interest in a fluff pulp mill located in France. The sale price included a contingent consideration of a maximum amount of \$10 million, based on the profitability of the mill. Accordingly, the Company realized a gain of \$8 million in 2000 and \$2 million in 2001.
- c) Other expenses included provisions for impairment in value of certain long-term assets.
- d) In 2002, the Company closed one of its converting folding boxboard units located in Ontario, incurring closing costs of \$6 million. In 2001, the Company closed one of its converting units in specialty products located in Richmond, Virginia, incurring closing costs of \$11 million. In 2000, the Company had definitively closed its plastics facility located in Cabano, Québec, incurring closing costs of \$2 million.
- e) In 2002, the Court of First Instance of the European Communities reduced the amount of the fine imposed in 1994. The reduction in the fine and the related interest thereon have been recorded as a gain amounting to approximately \$6 million.

12 Income taxes

- a) The provision for income taxes is as follows:

	2002	2001	2000
Current	48	47	38
Future	13	2	11
	61	49	49

Notes to Consolidated Financial Statements

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b) The income tax expense based on the effective income tax rate differs from the income tax expense based on the basic rate for the following reasons:

	2002	2001	2000
Income tax expense based on the combined basic Canadian and provincial income tax rate	90	71	52
Income tax expense (benefit) arising from the following:			
Deduction for manufacturing and processing and income from active businesses carried on in Québec	(19)	(18)	(12)
Difference in foreign operations' statutory income tax rate	(3)	(3)	(1)
Unrecognized tax benefit arising from current losses of subsidiaries	2	4	5
Unrecognized tax benefit arising from foreign exchange loss (gain) on long-term debt	—	5	4
Recognized tax benefit arising from previously incurred losses of subsidiaries	(10)	(6)	—
Permanent differences	2	3	3
Large corporations tax	2	3	3
Decrease in future income taxes resulting from a substantively enacted change in tax rates	(1)	(6)	(4)
Others	(2)	(4)	(1)
	(29)	(22)	(3)
Income tax expense for the year	61	49	49

c) Future income taxes include the following items:

	2002	2001
Future income tax assets		
Tax benefit arising from income tax losses	86	97
Employee future benefits	18	15
Unused tax credits	9	9
Others	6	7
Unrecorded future income tax asset	(33)	(41)
	86	87
Future income tax liabilities		
Property, plant and equipment	193	176
Employee future benefits	16	14
Other assets	14	15
Others	5	6
	228	211
Future income taxes	142	124

Notes to Consolidated Financial Statements

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d) Certain subsidiaries have accumulated losses for income tax purposes amounting to approximately \$226 million, which may be carried forward to reduce taxable income in future years. The future tax benefit resulting from the deferral of \$151 million of these losses has been recognized in the accounts as a future income tax asset. These unused losses for income tax purposes may be claimed in years ending no later than 2004 to 2022 for an amount of \$148 million and indefinitely for an amount of \$78 million.

13 Cash flow

a) Changes in non-cash working capital components are detailed as follows:

	2002	2001	2000
Accounts receivable	27	74	(26)
Inventories	(21)	7	(54)
Accounts payable and accrued liabilities	6	(16)	35
	12	65	(45)

b) Supplemental disclosure

	2002	2001	2000
Interest paid	78	86	84
Income taxes paid	62	40	42
Acquisition of property, plant and equipment under a capital lease	—	6	—
Acquisition of non-controlling interests by issuance of common shares	—	—	95
Business acquisition in exchange for non-monetary consideration	6	—	—
Settlement of dissenting shareholders by issuance of common shares	5	—	—

14 Employee future benefits

a) The expense for employee future defined benefits as at December 31 is as follows:

	2002		2001		2000
	Pension plans	Other plans	Pension plans	Other plans	Pension plans
Current service cost	11	2	10	2	10
Interest cost on obligation	28	4	27	3	24
Expected return on plan assets	(31)	—	(32)	—	(29)
Expense for the year	8	6	5	5	5

The expense recorded in 2002 for defined contribution plans (excluding group RRSPs) amounts to \$3 million (2001—\$1 million, 2000—\$1 million).

Notes to Consolidated Financial Statements

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b) The funded status of the defined benefit plans and the other complementary retirement benefit plans and post-employment benefit plans are as follows as at December 31:

	2002		2001	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation				
Obligation—Beginning of year	414	56	381	52
Current service cost	16	2	16	2
Interest cost	28	4	27	3
Actuarial losses	4	1	4	1
Benefit payments	(20)	(3)	(20)	(3)
Business acquisitions and disposals	—	—	6	1
Pension plan modifications	(3)	1	—	—
Others	1	5	—	—
Obligation—End of year	440	66	414	56
Plan assets				
Fair value—Beginning of year	435	—	433	—
Actual return on assets	(13)	—	1	—
Contributions by the Company	9	—	10	—
Contributions by employees	6	—	5	—
Benefit payments	(20)	—	(20)	—
Business acquisitions and disposals	(4)	—	6	—
Others	(2)	—	—	—
Fair value—End of year	411	—	435	—
Reconciliation of funded status				
Surplus (deficit)—End of year	(29)	(66)	21	(56)
Unamortized net actuarial loss	74	2	22	—
Unamortized transitional obligation	(2)	—	(2)	—
Unamortized past service cost	1	—	1	—
Net amount recognized	44	(64)	42	(56)

The net amount recognized as at December 31 is detailed as follows:

	2002		2001	
	Pension plans	Other plans	Total	Total
Employee future benefit asset	52	—	52	52
Employee future benefit liability	(8)	(64)	(72)	(66)
	44	(64)	(20)	(14)

Notes to Consolidated Financial Statements

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c) The following amounts relate to plans that are not fully funded as at December 31:

	2002		2001
	Pension plans	Other plans	Pension plans
Accrued benefit obligation	(350)	(64)	(178)
Fair value of plan assets	304	—	157
Funded status (deficit)	(46)	(64)	(21)
			(56)

d) The main actuarial assumptions adopted in measuring the accrued benefit obligations and expenses as at December 31, 2002 are as follows:

	Pension plans	Other plans
Discount rate	6.6% to 6.75%	6.6% to 6.75%
Expected long-term rate of return on plan assets	7.0% to 7.5%	—
Salary escalation rate	3.5% to 5.0%	3.5% to 5.0%
Rate increase in health care cost		
2000	—	8.0% to 13.0%
Ultimately	—	4.7% to 8.0%

The discount rate used by most subsidiaries and joint ventures of the Company for the valuation of the pension and other plans is 6.75%.

15 Commitments and contingency

a) Future minimum payments under operating leases for the next years are as follows:

Years ending December 31,	2003	36
	2004	28
	2005	24
	2006	19
	2007	16
	Thereafter	35

b) During the year, the Company was informed that one of its subsidiaries, Cascades Tissue Group Inc., is the subject of an inquiry by the Canadian Commissioner of Competition as to whether actions taken by that subsidiary between November 1999 and March 2002 in connection with sales of certain commercial and industrial, or away-from-home, tissue products in Canada constituted a violation of the Canadian *Competition Act*. The Competition Bureau has not informed the Company regarding the status of the inquiry or whether charges will be brought against that subsidiary. As the inquiry is still in a very early stage, the Company's management is unable to assess what further action, if any, the Competition Bureau may take or the possible impact of the outcome of the inquiry on the Company. However, based on the information currently available, the Company's management does not believe that this matter will have a material adverse effect on the Company's business, results of operations or financial condition.

Notes to Consolidated Financial Statements

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16 Financial instruments

The Company and some of its subsidiaries utilize a variety of derivative financial instruments to limit their exposure to foreign currency and commodity fluctuations as well as changing interest rates but do not hold or issue such financial instruments for trading purposes with the exception of certain interest rate swap agreements as described below.

Currency risks

The Company is exposed to currency risks as a result of its export of goods produced in Canada, the United States, France, Germany, Sweden, England and Mexico. These risks are partially covered by purchases, debt service and forward exchange contracts.

Some of the Company's Canadian entities entered into contracts to sell forward US dollars in exchange for Canadian dollars. As at December 31, 2002, these subsidiaries and joint ventures held forward exchange contracts with a notional amount of \$143 million (2001—\$117 million) maturing in 2003, at a weighted average exchange rate of 1.5817. As at December 31, 2002, the fair value of these instruments was nil. However, the fair value of these instruments as at December 31, 2001 and 2000 represented an unrealized loss of \$3.1 million and an unrealized gain of \$0.8 million respectively.

The European subsidiaries entered into forward exchange contracts maturing in less than a year to hedge their currency risks resulting from sales and purchases in European currencies, US dollars, British pounds and Canadian dollars. As at December 31, 2002, these contracts had an unrealized loss of \$0.5 million (2001—unrealized loss of \$0.5 million; 2000—unrealized gain of \$1.6 million) on a notional amount of \$25 million (2001 and 2000—\$40 million).

Interest rate risks

As at December 31, 2002, approximately 52% (2001—50%) of the Company's long-term debt was at variable rates. Interest rate swaps have been contracted to fix interest at a weighted average rate of 6.94% on a notional amount of \$50 million (2001—\$50 million). These instruments, which represent an unrealized loss of \$1.5 million, as at December 31, 2002 (2001—unrealized loss of \$2.5 million; 2000—unrealized loss of \$0.3 million), expire in 2003 and 2004.

In addition, the Company holds certain interest rate swap agreements not designated as hedges. These agreements, maturing from 2008 to 2012, have been contracted to fix interest at a weighted average rate of 8.18% on a notional amount of US\$3 million. As at December 31, 2002, these agreements are recorded as liabilities at their fair value of \$0.9 million.

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

Credit risks

The Company is exposed to credit risk on the accounts receivable from its customers. In order to reduce this risk, the Company's credit policies include the analysis of the financial position of its customers and the regular review of their credit limits. In addition, the Company believes there is no particular concentration of credit risks due to the geographic diversity of customers and the procedures for the management of commercial risks. Derivative financial instruments include an element of credit risk should the counterparty be unable to meet its obligations. The Company reduces this risk by dealing with creditworthy financial institutions.

In the context of its credit risk management, in 2002, the Company entered into a transfer of receivables agreement with a financial institution. This agreement allows the Company to sell, on a continuous basis, its accounts receivable of a specific client for an amount of up to \$20 million. In the event of a late payment from the client, the only recourse of the financial institution against the Company is a penalty fee for which management believes that no payment will be required in the future. The Company services the sold accounts receivable and no servicing asset or liability is recognized, as management believes that the value of the services rendered is equivalent to the benefits earned. As at December 31, 2002, the accounts receivable sold amounted to \$11 million and were accounted for as an inflow from accounts receivable in the consolidated statement of cash flows. During the year, the Company incurred expenses of \$0.5 million with respect to this agreement.

Commodity price risk

The Company also entered into swap contracts whereby it sets the price on notional quantities of old corrugated containers, bleached softwood kraft, electricity, natural gas, 42-lb. kraft linerboard and 26-lb. semichemical corrugating medium. Gains and losses arising from these contracts are charged to earnings only when realized. The fair value of these contracts as at December 31, 2002 represented a net unrealized gain of \$1.5 million (2001—net unrealized loss of \$1.6 million; 2000—unrealized loss of \$0.4 million).

17 Related party transactions

The Company entered into the following transactions with related parties:

	2002	2001	2000
Joint ventures ⁽¹⁾			
Sales	19	17	17
Revenue from services	22	22	19
Purchases	24	11	13
Significantly influenced companies			
Sales	58	44	44
Purchases	9	25	32
Entity controlled by a related director of the Company			
Purchases	5	5	3

(1) Represent the portion of transactions or balances not eliminated upon proportionate consolidation of the joint ventures.

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

These transactions occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The balance sheets as at December 31 included the following balances with related parties:

	2002	2001
Joint ventures ⁽¹⁾		
Accounts receivable	5	5
Accounts payable	3	2
Significantly influenced companies		
Accounts receivable	4	4
Accounts payable	1	1
Entity controlled by a related director of the Company		
Accounts payable	1	—

(1) Represent the portion of transactions or balances not eliminated upon proportionate consolidation of the joint ventures.

18 Interests in joint ventures

The major components of the interests in joint ventures in the consolidated financial statements are as follows:

	2002	2001	2000
Consolidated balance sheets			
Current assets	191	173	180
Long-term assets	465	427	358
Current liabilities	123	107	89
Long-term debt, net	182	194	186
Consolidated statements of earnings			
Sales	772	636	619
Amortization	29	26	23
Operating income	88	92	110
Financial expenses	19	17	20
Net earnings	46	38	55
Consolidated statements of cash flows			
Operating activities	63	70	116
Investing activities	(58)	(90)	(56)
Financing activities	3	6	(40)
Additional information			
Cash and cash equivalents at end of period	13	6	21
Total assets	656	600	538
Total debt ⁽¹⁾	218	213	194
Dividends received by the Company from joint ventures	17	22	1

(1) Includes bank loans and advances, current portion of long-term debt, and long-term debt.

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

19 Summary of differences between Canadian and United States generally accepted accounting principles

The consolidated financial statements have been prepared in accordance with Canadian GAAP, which differ in certain respects from U.S. generally accepted accounting principles ("U.S. GAAP"). Such differences, as they relate to the Company, are summarized below.

New accounting policies under U.S. GAAP

a) Goodwill and Other Intangible Assets

On January 1, 2002, the Company applied SFAS 142, *"Goodwill and Other Intangible Assets"*. This standard is essentially the same as a recently issued accounting standard of the CICA. Refer to note 2(a) for a description of the impact on the Company of the implementation of this new standard.

b) Accounting for the Impairment or Disposal of Long-lived Assets

On January 1, 2002, the Company applied SFAS 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"*. SFAS 144 addresses financial accounting impairment or disposal of long-lived assets and requires that one accounting model be used for long-lived assets to be disposed of by sale. The standard also broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations, and changes the timing for recognizing losses on such operations. The adoption of this standard did not have any impact on the financial position or results of operations of the Company.

c) Accounting for Derivative Instruments and Hedging Activities

On January 1, 2001, for U.S. reporting purposes, the Company applied FASB Statement 133, *"Accounting for Derivative Instruments and Hedging Activities"*, as amended by SFAS 137, *"Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement 133"*, and by SFAS 138, *"Accounting for Certain Derivative Instruments and Certain Hedging Activities"*. The presentation standards for derivative instruments and hedging activities are described in these statements. Under these statements, all derivative instruments are accounted for at their fair value and recognized based on their anticipated use and designation as a hedge. The application of this standard as at January 1, 2001 resulted in a charge of \$0.2 million after tax to comprehensive earnings (note 19(p)).

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

Reconciliation of net earnings, shareholders' equity and balance sheet

d) The following summary sets out the material adjustments to the Company's reported net earnings, shareholders' equity and balance sheet that would be made in order to reconcile to U.S. GAAP:

Reconciliation of net earnings

	Note	2002	2001	2000
Net earnings under Canadian GAAP		169	109	67
U.S. GAAP adjustments:				
Start-up costs	(e)	4	4	5
Gain realized on formation of Norampac	(f)	(5)	(5)	(5)
Unrealized exchange gains (losses) arising from foreign exchange forward contracts	(g)	3	(4)	(1)
Unrealized gains (losses) arising from change in fair values of derivative instruments	(h)	1	—	—
Provision for derivative instruments currently in default		2	(2)	—
Unrealized gains (losses) from interest rate swaps	(i)	1	(3)	—
Employee future benefits	(j)	1	(1)	1
Dividends on preferred shares of a subsidiary	(l)	3	4	4
Stock-based compensation	(m)	—	(1)	(1)
Tax effect on above adjustments		(3)	3	—
Income taxes	(n)	—	4	(4)
Non-controlling interests		(3)	(4)	(5)
Net earnings under U.S. GAAP		173	104	61
Net earnings under U.S. GAAP per common share				
Basic		2.11	1.27	0.91
Diluted		2.09	1.27	0.91

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

Reconciliation of shareholders' equity

	Note	2002	2001	2000
Shareholders' equity under Canadian GAAP		1,065	870	766
U.S. GAAP adjustments:				
Start-up costs	(e)	(5)	(9)	(13)
Gain realized on formation of Norampac	(f)	66	71	76
Unrealized exchange gains (losses) arising from foreign exchange forward contracts	(g)	—	(3)	1
Unrealized gains (losses) arising from change in fair values of derivative instruments net of provision for instruments currently in default	(h)	1	(1)	—
Unrealized gains (losses) from interest rate swaps	(i)	(2)	(3)	—
Employee future benefits	(j)	(12)	(13)	(12)
Minimum pension liability	(k)	(15)	(5)	—
Privatization	(o)	(1)	(1)	(1)
Tax effect on above adjustments		(1)	(2)	(6)
Income taxes	(n)	—	—	(4)
Class B preferred shares	(w)	(6)	(6)	(6)
Shareholders' equity under U.S. GAAP		1,090	898	801

Reconciliation of balance sheet

	Note	Canadian GAAP	2002	Canadian GAAP	2001	U.S. GAAP
Property, plant and equipment	(f)(o)	1,604	1,640	1,481	1,521	
Other assets and goodwill (long-term)	(e)(f)(g) (h)(i)(j)	339	358	292	308	
Accounts payable and accrued liabilities	(g)(h)(i)	483	486	451	459	
Long-term debt, excluding current portion	(l)	1,048	992	1,043	976	
Other liabilities (long-term)	(l)(j)(k) (l)(n)(o)	216	299	208	294	
Shareholders' equity	(e) to (o)	1,065	1,090	870	898	

The amounts presented in the above table under both Canadian GAAP and U.S. GAAP include joint ventures accounted for under the proportionate consolidation method as described in note 19 (t).

- e) Under Canadian GAAP, start-up costs are deferred and amortized over a period not exceeding five years. Under U.S. GAAP, start-up costs are accounted for under Statement of Position ("SOP") No. 98-5, *"Reporting on the Costs of Start-up Activities"*, and are included in the statement of earnings in the period they are incurred.
- f) On December 30, 1997, the Company and Domtar Inc. merged their respective containerboard and corrugated packaging operations to form Norampac, a 50-50 joint venture. Under Canadian GAAP, a portion

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

of the gain realized on the transaction, representing approximately \$58 million, was recorded against property, plant and equipment and goodwill. Under U.S. GAAP, this gain would have been recognized in earnings on December 30, 1997.

In addition, under U.S. GAAP, additional liabilities would have been included in the allocation of the purchase price at the date of the transaction with respect to employee future benefits, with a corresponding adjustment to goodwill.

g) Under Canadian GAAP, gains and losses arising from foreign exchange forward contracts are charged to earnings only when realized. Under U.S. GAAP, these unrealized gains and losses are charged to earnings as they arise.

h) Under Canadian GAAP, gains and losses arising from swap contracts are charged to earnings only when realized. Under U.S. GAAP, the unrealized gains and losses arising from these contracts, which do not meet requirements of hedging as defined in SFAS 133, *“Accounting for Derivative Instruments and Hedging Activities”*, are charged to earnings. However, the net unrealized loss of \$0.2 million after tax that existed upon the adoption of SFAS 133 and SFAS 138 has been recorded to comprehensive earnings and is being transferred to earnings as the contracts mature.

i) Under Canadian GAAP, unrealized gains and losses on interest rate swaps (described in note 16) designated as hedges are not recognized in the financial statements. Under U.S. GAAP, these contracts are not designated as hedges and therefore, the unrealized gains and losses are charged to earnings.

j) Before the adoption of the new CICA standard on January 1, 2000 concerning employee future benefits as described in note 2(d), the discount rate used in the measurement of pension costs and obligations under U.S. GAAP differed from the one used under Canadian GAAP. In addition, as allowed by Canadian GAAP before January 1, 2000, the Company recognized post-employment costs and obligations using the cash basis of accounting. The new CICA standard applied by the Company on January 1, 2000 essentially harmonizes Canadian GAAP with U.S. GAAP. The remaining adjustments result from the amortization of actuarial gains and losses that arose prior to January 1, 2000.

k) Under U.S. GAAP, a minimum pension liability adjustment must be recorded when the accumulated benefit obligation of a plan is greater than the fair value of its assets. The excess of its liability over the intangible asset, which can also be recorded for the plan, is recorded in comprehensive earnings in shareholders' equity.

l) Under Canadian GAAP, dividends on mandatorily redeemable preferred shares of a subsidiary are charged to earnings as interest expense whereas under U.S. GAAP, these dividends would also be charged to earnings but as non-controlling interests.

In addition, under U.S. GAAP, these dividends would have been shown as a financing activity in the cash flow statement, as opposed to an operating activity under Canadian GAAP.

Under U.S. GAAP, these preferred shares would be disclosed separately on the balance sheet as non-controlling interests, as opposed to long-term debt under Canadian GAAP.

m) Under U.S. GAAP and in accordance with SFAS 123, *“Accounting for Stock-based Compensation”*, companies are permitted to apply the fair value method of accounting for stock-based compensation awards granted to employees. Under Canadian GAAP, the Company applied the recommendations of the CICA as described in note 2(c), which essentially harmonizes Canadian GAAP with U.S. GAAP with respect to stock-based compensation awards granted

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

to employees. Therefore, there is no Canadian GAAP to U.S. GAAP adjustment to earnings for stock options granted after January 1, 2002. Under U.S. GAAP, the fair value of options issued prior to January 1, 2002 was estimated based on the following weighted average assumptions:

	2001	2000
Risk-free interest rate	5.24%	6.46%
Expected dividend yield	1.75%	1.25%
Expected life of the options	6 years	6 years
Expected volatility	28%	27%
Weighted average fair value per option	\$2.16	\$3.55

n) Under Canadian GAAP, income tax rates of substantively enacted tax laws can be used to calculate future income tax assets and liabilities while under U.S. GAAP, only income tax rates of enacted laws can be used.

o) As described in note 3(c), on December 31, 2000, the Company acquired shares held by non-controlling shareholders in three of its subsidiaries (the "privatized subsidiaries") in exchange for common shares of the Company. Under Canadian GAAP, the fair value of \$6.85 attributed to the shares issued represents the quoted market value of the Company's shares at the date of privatization. Under U.S. GAAP, the fair value attributed to the shares issued would have been \$6.67 which represents the quoted market value of the Company's shares during a reasonable period before and after the date the transaction was agreed upon and announced. Since the excess of the net book value of the non-controlling interests over their purchase price has been recorded under Canadian GAAP as a decrease of property, plant and equipment and future income tax liabilities, the adjustment resulting from a different measurement date as stated above would affect these accounts accordingly.

In addition, Canadian GAAP to U.S. GAAP reconciliation items described in note 19(e) to (n) and affecting the privatized subsidiaries prior to December 31, 2000 would affect the computation of the net book value of the non-controlling interests and therefore the adjustment to property, plant and equipment and future income tax liabilities at the date of the privatization.

Other disclosures

p) Comprehensive earnings

	Note	2002	2001
Net earnings under U.S. GAAP		173	104
Translation adjustments		32	5
Minimum pension liability adjustment, net of related income taxes	(p) (1)	(6)	(3)
Cumulative net loss on adoption of SFAS 133 and 138, net of related income taxes	(p) (2)	—	—
Reclass to earnings of cumulative net loss on adoption of SFAS 133 and 138, net of related income taxes	(p) (3)	(1)	1
Comprehensive earnings under U.S. GAAP		198	107

(1) The minimum pension liability adjustment represents \$6.3 million, \$3.4 million and \$0.2 million for the years ended December 31, 2002, 2001 and 2000 respectively, net of related income taxes of \$3.2 million, \$1.8 million and \$0.2 million for the years ended December 31, 2002, 2001 and 2000 respectively.

(2) The cumulative net loss on adoption of SFAS 133 and 138 represents an adjustment of \$0.2 million on January 1, 2001, net of related income taxes of \$0.2 million.

(3) The reclass to earnings of cumulative net loss on adoption of SFAS 133 and 138 represents an income of \$0.5 million and an expense of \$0.6 million for the years ended December 31, 2002 and 2001 respectively, net of related income taxes of \$0.3 million and \$0.3 million for the years ended December 31, 2002 and 2001 respectively.

Notes to Consolidated Financial Statements

For the three-year period ended December 31, 2002
(tabular amounts in millions of Canadian dollars)

q) Accumulated other comprehensive earnings

	2002	2001
Cumulative translation adjustments	48	16
Cumulative minimum pension liability adjustments, net of tax	(10)	(4)
	38	12

r) For pension plans where the accumulated benefit obligation ("ABO") exceeds the fair value of plan assets under U.S. GAAP, the projected benefit obligation ("PBO"), ABO and fair value of plan assets are as follows:

	2002	2001
PBO	111	64
ABO	106	62
Fair value of plan assets	86	52

s) Under Canadian GAAP, cost of delivery billed to customers is classified as a deduction from sales in determining the amount of net sales, while under U.S. GAAP, delivery costs billed to customers are classified as a component of cost of sales.

t) Under Canadian GAAP, investments in joint ventures are accounted for using the proportionate consolidation method. Under U.S. GAAP, investments in joint ventures are accounted for using the equity method. The different accounting treatment affects only the display and classification of financial statement items and not net earnings or shareholders' equity. Rules prescribed by the Securities and Exchange Commission of the United States ("SEC") permit the use of the proportionate consolidation method in the reconciliation to U.S. GAAP, provided the joint venture is an operating entity and the significant financial operating policies are, by contractual arrangement, jointly controlled by all parties having an equity interest in the joint venture. In addition, the Company discloses in note 18 the major components of its financial statements resulting from the use of the proportionate consolidation method to account for its interests in joint ventures.

u) Under Canadian GAAP, the Company's deferred financing costs are amortized on a straight-line basis over the anticipated period of repayment of the underlying debt. Under U.S. GAAP, such costs are amortized under the interest method. Amortization under both methods was not materially different for each of the periods presented.

v) Under U.S. GAAP, the dilution gains of 2001 and 2002 amounting to \$1 million and \$23 million respectively as described in note 11(a) would have been disclosed separately on the statement of earnings.

w) Under Canadian GAAP, the Class B preferred shares of a subsidiary are included under capital stock (note 9(b)). Under U.S. GAAP, these preferred shares would be shown on the balance sheet as a non-controlling interest.

Historical Financial Information 2002–1993

For the years ended December 31
(in millions of dollars, except per share amounts and ratios)
(unaudited)

	2002	2001*	2000*
Highlights—Consolidated Results			
Net sales	3,375	3,023	2,866
Cost of sales and expenses	2,951	2,643	2,527
Earnings before interest, taxes, depreciation and amortization (EBITDA)	424	380	339
Depreciation	139	132	125
Operating income	285	248	214
Interest expense	72	86	89
Foreign exchange loss (gain) on long-term debt	—	14	10
Unusual losses (gains)	4	(7)	1
	209	155	114
Provision for income taxes	61	49	49
Share of results of significantly influenced companies	(22)	(3)	(5)
Non-controlling interests	1	—	3
Net earnings (loss)	169	109	67
Net earnings (loss) per common share	\$ 2.07	\$ 1.33	\$ 1.00
Highlights—Consolidated Cash Flow			
Cash flow from operations	313	249	214
Purchase of property, plant & equipment	129	122	148
Business acquisitions	131	148	31
Business disposals	4	—	1
Net change in long-term debt	(26)	(29)	30
Dividends on common shares per common share	10 \$ 0.12	9 \$ 0.12	7 \$ 0.11
Dividend yield	1.0%	1.2%	1.6%
Highlights—Consolidated Balance Sheet			
Working capital	386	348	384
Property, plant & equipment	1,604	1,481	1,376
Total assets	2,959	2,733	2,627
Total long-term debt	1,095	1,103	1,096
Non-controlling interests	2	18	31
Shareholders' equity per common share	1,065 \$13.02	870 \$ 10.75	766 \$ 9.47
Stock Market Highlights			
Shares issued and outstanding (in millions)	81.8	81.0	80.9
Trading volume (in millions)	41.3	31.7	13.9
Market capitalisation	1,281	843	554
Closing price	\$15.65	\$ 10.41	\$ 6.85
High	\$18.25	\$ 10.44	\$ 10.50
Low	\$10.30	\$ 6.41	\$ 6.05
Key Financial Ratios			
Return on equity	18%	13%	10%
EBITDA/net sales	13%	13%	12%
EBITDA/interest	5.9x	4.4x	3.8x
Net funded debt/EBITDA	2.7x	3.1x	3.5x
Net sales/total capitalization	1.4x	1.3x	1.3x
Net funded debt/total capitalization	47%	51%	53%
Total debt/total debt + shareholders' equity	53%	58%	61%
Price to earnings	7.6x	7.8x	6.8x
Price to book value	1.2x	1.0x	0.7x

* Restated

1999*	1998*	1997*	1996	1995	1994	1993
2,615	2,527	2,109	2,012	2,184	1,643	1,590
2,306	2,211	1,860	1,726	1,879	1,469	1,452
309	316	249	286	305	174	138
117	113	94	86	78	66	76
192	203	155	200	227	108	62
85	89	59	67	71	62	81
(14)	15	6	—	—	—	—
3	15	(9)	(32)	(21)	(10)	80
118	84	99	165	177	56	(99)
42	44	32	57	38	18	17
(5)	(1)	(1)	1	—	—	—
8	9	9	22	26	4	(57)
73	32	59	85	113	34	(59)
\$ 1.08	\$ 0.48	\$ 0.85	\$ 1.37	\$ 1.84	\$ 0.45	\$ (1.21)
192	185	162	197	209	101	37
128	227	153	118	114	73	62
13	51	99	—	31	6	12
17	1	—	84	—	13	212
(40)	83	188	(17)	(12)	(12)	(204)
7	7	6	6	—	—	—
\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10	—	—	—
1.1%	1.3%	1.0%	1.3%	—	—	—
353	364	339	218	206	141	242
1,355	1,400	1,314	1,114	1,145	944	888
2,434	2,467	2,319	1,874	1,930	1,629	1,453
1,044	1,158	1,076	690	716	561	515
185	196	208	178	192	137	119
647	600	559	591	525	418	460
\$ 9.66	\$ 8.97	\$ 8.41	\$ 8.26	\$ 7.02	\$ 5.13	\$ 4.48
66.9	66.9	66.4	56.4	57.6	57.8	57.8
8.9	13.1	32.8	33.2	18.6	30.1	18.3
589	522	681	434	411	426	397
\$ 8.80	\$ 7.80	\$ 10.25	\$ 7.70	\$ 7.13	\$ 7.37	\$ 6.87
\$ 10.25	\$ 11.30	\$ 11.50	\$ 8.20	\$ 8.12	\$ 8.87	\$ 7.25
\$ 7.50	\$ 6.80	\$ 6.45	\$ 5.50	\$ 6.50	\$ 6.37	\$ 5.00
12%	6%	10%	15%	24%	9%	-15%
12%	13%	12%	14%	14%	11%	9%
3.6x	3.5x	4.2x	4.3x	4.3x	2.8x	1.7x
3.6x	3.7x	4.3x	2.4x	2.6x	3.5x	3.8x
1.3x	1.2x	1.1x	1.3x	1.3x	1.2x	1.3x
54%	56%	54%	43%	49%	46%	43%
64%	67%	67%	56%	62%	61%	57%
8.1x	16.3x	12.1x	5.6x	3.9x	16.4x	n/a
0.9x	0.9x	1.2x	0.9x	1.0x	1.4x	1.5x

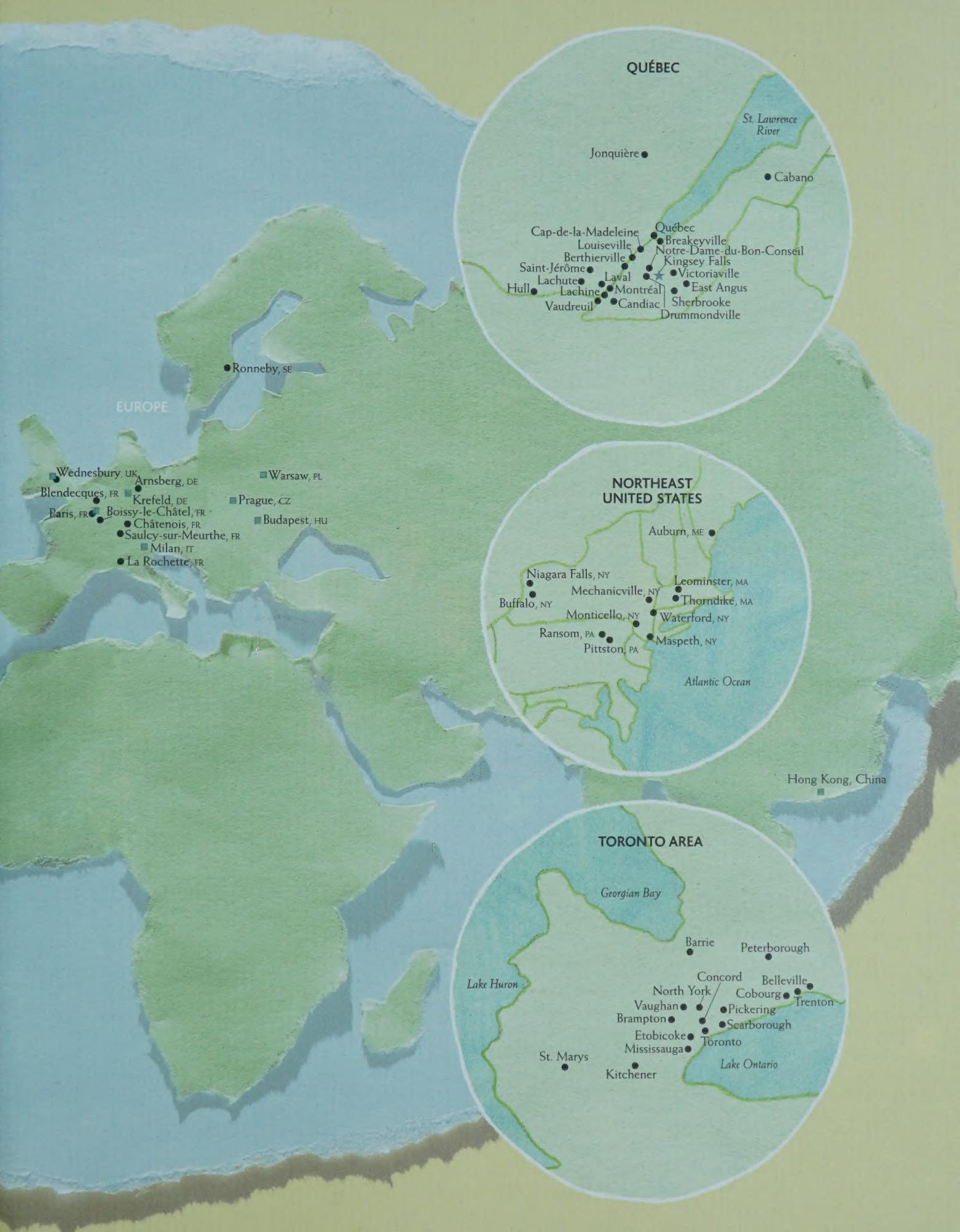
Cascades Worldwide



★ HEAD OFFICE

● PLANTS, MILLS AND DISTRIBUTION CENTRES

■ INTERNATIONAL SALES



Directors, Officers and General Information

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Cascades Inc.

Laurent Lemaire ¹
President and Chief Executive
Officer, Cascades Inc.

Alain Lemaire ¹
Executive Vice-President,
Cascades Inc.

President and Chief Executive
Officer, Norampac Inc.

Norman Boisvert ^{1,3}
Vice-President, Administration,
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Martin P. Pelletier ⁴
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Quebecor World Inc.

Laurent Verreault ²
President and Chief Executive
Officer, Société Groupe Laperrière
& Verreault Inc.

¹ Member of the Executive Committee

² Member of the Audit Committee

³ Member of the Remuneration Committee

⁴ Member of the Environmental, Occupational Health
and Safety Committee

⁵ Member of the Governance Committee

OFFICERS

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Chairman of the Board

Laurent Lemaire
President and
Chief Executive Officer

Alain Lemaire
Executive Vice-President,
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President and Chief Executive
Officer, Norampac Inc.

Robert F. Hall
Vice-President, Legal Affairs
and Corporate Secretary

André Belzile
Vice-President and
Chief Financial Officer

Alain Ducharme
Corporate Vice-President

Norman Boisvert
Vice-President, Administration

Claude Cossette
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Tissue Group

Denis Jean
President and Chief
Executive Officer,
Fine Papers Group

Mario Plourde
President and Chief
Operating Officer,
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Fax: (514) 282-2624
investisseur@cascades.com

GENERAL INFORMATION

The Annual General Meeting of
Shareholders will be held on
April 29, 2003 at 10:30 a.m.,
at the Omni Mont-Royal Hotel,
Saisons A and B Rooms,
1050 Sherbrooke Street West
Montréal, Québec.

The 2002 Annual Information
Form of Cascades Inc. will be
available upon request from the
Company's head office as of
May 20, 2003.

*On peut se procurer la version française
du présent rapport en s'adressant au
Secrétaire corporatif
Cascades inc.
404, boul. Marie-Victorin
Case postale 30
Kingsey Falls (Québec)
Canada J0A 1B0*

*Vous le trouverez aussi sur notre site
Internet à l'adresse www.cascades.com*

Transfer agent and registrar:
Computershare Trust Company
of Canada Inc.

HEAD OFFICE

Cascades Inc.
404 Marie-Victorin Blvd.
Kingsey Falls, Québec
Canada J0A 1B0
Telephone: (819) 363-5100
Fax: (819) 363-5155



Members of the Board of Directors, left to right:

First row—ALAIN LEMAIRE, LAURENT LEMAIRE, BERNARD LEMAIRE, LAURENT VERREAULT, SYLVIE LEMAIRE

Second row—MICHEL DESBIENS, PAUL R. BANNERMAN, JACQUES AUBERT, PAUL PELLETIER, NORMAN BOISVERT, SIMON L'HEUREUX, ANDRÉ DESAULNIERS, MARTIN P. PELLETIER, LOUIS GARNEAU

CASCADES COEXTRUSION LINE IN KINGSEY FALLS



www.cascades.com

COVER PAGE : LYDIA DAUGHTER OF LUCIE LAROCHE, CORPORATE PURCHASING

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